UNIT-I- STRATEGIC MANAGEMENT

SYLLABUS

Unit I Strategic Management – Evolution, Elements in Strategic Management – Understanding Strategy - Levels of strategy – Strategic decision making – Strategic management process – Mission – Vision – Goals and Objectives – Strategic planning process - Identifying critical success factors - Strategic management Practice in India. Competitive advantage of Nations and its implication on Indian Business.

INTRODUCTION:

STRATEGY:

Strategies are the means by which long term objectives will be achieved. Business strategies may include geographical expansion, diversification, product development, joint ventures.
A unified, Comprehensive & integrated plan to achieve organizational objective is known as Strategy.

Strategy - Definition and Features

Chandler (1962) Strategy is the determination of the basic long-term goals of an enterprise, and the adoption of courses of action and the allocation of resources necessary for carrying out the goals.

Mintzberg (1979) Strategy is a mediating force between the organization and its environment: consistent patterns in streams of organizational decisions to deal with the environment.

Prahlad (1993) Strategy is more than just fit and allocation of resources. It is stretch and leveraging of resources

Porter (1996) Strategy is about being different. It means deliberately choosing a different set of activities to deliver a unique mix of value.

Need for corporate strategy

Strategic management is basically needed for every organization and it offers several benefits.

1. Universal

Strategy refers to a complex web of thoughts, ideas, insights, experiences, goals, expertise, memories, perceptions, and expectations that provides general guidance for specific actions in pursuit of particular ends. Nations have, in the management of their national policies, found it necessary to evolve strategies that adjust and correlate political, economic, technological, and psychological factors, along with military elements. Be it management of national polices, international relations, or even of a game on the playfield, it provides us with the preferred path that we should take for the journey that we actually make.

2. Keeping pace with changing environment

The present day environment is so dynamic and fast changing thus making it very difficult for any modern business enterprise to operate. Because of uncertainties, threats and constraints, the business corporations are under great pressure and are trying to find out the ways and means for their healthy survival. Under such circumstances, the only last resort is to make the best use of strategic management which can help the corporate management to explore the possible opportunities and at the same time to achieve an optimum level of efficiency by minimizing the expected threats.

3. Minimizes competitive disadvantage

It minimizes competitive disadvantage and adds up to competitive advantage. For example, a company like Hindustan Lever Ltd., realized that merely by merging with companies like Lakme, Milk food, Ponds, Brooke bond, Lipton etc which make fast moving consumer goods alone will not make it market leader but venturing into retailing will help it reap heavy profits. Then emerged its retail giant "Margin Free' which is the market leader in states like Kerala. Similarly, the R.P. Goenka Group and the Muruguppa group realized that mere take over's do not help and there is a need to reposition their products and reengineer their brands.

The strategy worked.

4. Clear sense of strategic vision and sharper focus on goals and objectives

Every firm competing in an industry has a strategy, because strategy refers to how a given objective will be achieved. 'Strategy' defines what it is we want to achieve and charts our course in the market place; it is the basis for the establishment of a business firm; and it is a basic requirement for a firm to survive and to sustain itself in today's changing environment by providing vision and encouraging defining mission.

5. Motivating employees

One should note that the labor efficiency and loyalty towards management can be expected only in an organization that operates under strategic management. Every guidance as to what to do, when and how to do and by whom etc, is given to every employee. This makes them more confident and free to perform their tasks without any hesitation. Labor efficiency and their loyalty which results into industrial peace and good returns are the results of broad-based policies adopted by the strategic management.

6. Strengthening Decision-Making

Under strategic management, the first step to be taken is to identify the objectives of the business concern. Hence a corporation organized under the basic principles of strategic management will find a smooth sailing due to effective decision-making. This points out theneed for strategic management.

7. Efficient and effective way of implementing actions for results

Strategy provides a clear understanding of purpose, objectives and standards of performance to employees at all levels and in all functional areas. Thereby it makes implementation very smooth allowing for maximum harmony and synchrony. As a result, the expected results are obtained more efficiently and economically.

8. Improved understanding of internal and external environments of business

Strategy formulation requires continuous observation and understanding of environmental variables and classifying them as opportunities and threats. It also involves knowing whether the threats are serious or casual and opportunities are worthy or marginal. As such strategy provides for a better understanding of environment.

Evolution of Strategic Management

The Strategic management discipline is originated in the 1950s and 60s. Although there were numerous early contributors to the literature, the most influential pioneers were Alfred D. Chandler, Philip Selznick, Igor Ansoff, and Peter Drucker. The discipline draws from earlier thinking and texts on 'strategy' dating back thousands of years.

Alfred Chandler recognized the importance of coordinating the various aspects of management under one all-encompassing strategy. Prior to this time the various functions of management were separate with little overall coordination or strategy. Interactions between functions or between departments were typically handled by a boundary position, that is, there were one or two managers that relayed information back and forth between two departments. Chandler also stressed the importance of taking a long term perspective when looking to the future. In his 1962 ground breaking work *Strategy and Structure*, Chandler showed that a long-term coordinated strategy was necessary to give a company structure, direction, and focus. He says it concisely, "structure follows strategy."

In 1957, Philip Selznick introduced the idea of matching the organization's internal factors with external environmental circumstances. This core idea was developed into what we now call SWOT analysis by Learned, Andrews, and others at the Harvard Business School General Management Group. Strengths and weaknesses of the firm are assessed in light of the opportunities and threats from the business environment.

Igor Ansoff built on Chandler's work by adding a range of strategic concepts and inventing a whole new vocabulary. He developed a strategy grid that compared market penetration strategies, product development strategies, market development strategies and horizontal and vertical integration and diversification strategies. He felt that management could use these strategies to systematically prepare for future opportunities and challenges. In his 1965 classic *Corporate Strategy*, he developed the gap analysis still used today in which we must understand the gap between where we are currently and where we would like to be, then develop what he called "gap reducing actions"

Peter Drucker was a prolific strategy theorist, author of dozens of management books, with a career spanning five decades. His contributions to strategic management were many but two are most important. Firstly, he stressed the importance of objectives. An organization without clear objectives is like a ship without a rudder. As early as 1954 he was developing a theory of management based on objectives. This evolved into his theory of **management by objectives** (MBO). According to Drucker, the procedure of setting objectives and monitoring your progress towards them should permeate the entire organization, top to bottom. His other seminal contribution was in predicting the importance of what today we would call intellectual capital. He predicted the rise of what he called the "knowledge worker" and explained the consequences of this for management. He said that knowledge work is non-hierarchical. Work would be carried out in teams with the person most knowledgeable in the task at hand being the temporary leader.

In 1985, Ellen-Earle Chaffee summarized what she thought were the main elements of strategic management theory by the 1970s

- Strategic management involves adapting the organization to its business environment.
- Strategic management is fluid and complex. Change creates novel combinations of circumstances requiring unstructured non-repetitive responses.
- Strategic management affects the entire organization by providing direction.
- Strategic management involves both strategy formation (she called it content) and also strategy implementation (she called it process).
- Strategic management is partially planned and partially unplanned.
- Strategic management is done at several levels: overall corporate strategy, and individual business strategies.
- Strategic management involves both conceptual and analytical thought processes.

Elements of strategic management

1. **Strategic intent**
   - Formulating mission and mission statement.‡
   - Business definition in terms of customer, product and technology.
   - Formulating long term objectives.

2. **SWOT/ Environment Analysis**
   - Analysis of general environment.
   - Preparation of environmental threat and opportunity profile.

3. **Strategic alternatives**
   - Growth strategy
   - Diversification strategy
   - Merger & acquisition strategy
   - Joint Venture strategy
   - Business restructuring strategy

4. **Strategic analysis and choice**
   - Focusing on strategic alternatives
   - Evaluating strategic alternatives

- Considering decision factor
- Strategic choice

5. **Strategy implementation**
   - Institutionalization of strategy
   - Structural implementation
   - Functional implementation

6. **Strategy evaluation and control**
   - Designing evaluation & control system.
   - Setting criteria for evaluation & control

STRATEGIC MANAGEMENT

Strategic management is defined as the set of decisions and actions in formulation and implementation of strategies designed to achieve the objectives of an organization.

CHARACTERISTICS

- Strategic issues warrant Top management decisions.
- Strategic issues involve the allocation of large amounts and resources.
- Strategic issues are likely to have impact on long term prosperity.
- Strategic issues have consequences of multi business.
- Strategic issues are future oriented.
- Strategic issues give top importance to the external environment.
- Strategic management as a process.
- Strategic management stress both Efficiency and Effectiveness.
- To Makes discipline.
- To make control.

Need of Strategic Management

- To provide guide lines
- Research and development
- Probability for business performance
- Systemized decision
- Improves Communication
- Allocation of resource
- Improves Coordination

HIERARCHICAL LEVELS OF STRATEGY

Strategy can be formulated on three different levels:

- Corporate level
- Business unit level
- Functional or Departmental level.

1. MULTIPLE BUSINESS FIRMS :

(1) CORPORATE LEVEL
(2) BUSINESS LEVEL
(3) FUNCTIONAL LEVEL

2.SINGLE BUSINESS FIRMS :

(1) CORPORATE LEVEL/BUSINESS LEVEL
(2) FUNCTIONAL LEVEL

Corporate Level Strategy

Corporate level strategy fundamentally is concerned with the selection of businesses in which the company should compete and with the development and coordination of that portfolio of businesses.

Corporate level strategy is concerned with:

- **Reach** - defining the issues that are corporate responsibilities; these might include identifying the overall goals of the corporation, the types of businesses in which the corporation should be involved, and the way in which businesses will be integrated and managed.
- **Competitive Contact** - defining where in the corporation competition is to be localized. Take the case of insurance: In the mid-1990's, Aetna as a corporation was clearly identified with its commercial and property casualty insurance products. The conglomerate Textron was not. For Textron, competition in the insurance markets took place specifically at the business unit level, through its subsidiary, Paul Revere. (Textron divested itself of The Paul Revere Corporation in 1997.)
- **Managing Activities and Business Interrelationships -** Corporate strategy seeks to develop synergies by sharing and coordinating staff and other resources across business units, investing financial resources across business units, and using business units to complement other corporate business activities. Igor Ansoff introduced the concept of synergy to corporate strategy.

- **Management Practices** - Corporations decide how business units are to be governed: through direct corporate intervention (centralization) or through more or less autonomous government (decentralization) that relies on persuasion and rewards.

Corporations are responsible for creating value through their businesses. They do so by managing their portfolio of businesses, ensuring that the businesses are successful over the long-term, developing business units, and sometimes ensuring that each business is compatible with others in the portfolio.

Business Unit Level Strategy

A strategic business unit may be a division, product line, or other profit center that can be planned independently from the other business units of the firm.

At the business unit level, the strategic issues are less about the coordination of operating units and more about developing and sustaining a competitive advantage for the goods and services that are produced. At the business level, the strategy formulation phase deals with:

- positioning the business against rivals
- anticipating changes in demand and technologies and adjusting the strategy to accommodate them
- Influencing the nature of competition through strategic actions such as vertical integration and through political actions such as lobbying.

Michael Porter identified three generic strategies (*cost leadership*, *differentiation*, and *focus*) that can be implemented at the business unit level to create a competitive advantage and defend against the adverse effects of the five forces.

Functional Level Strategy

The functional level of the organization is the level of the operating divisions and departments. The strategic issues at the functional level are related to business processes and the value chain. Functional level strategies in marketing, finance, operations, human resources, and R&D involve the development and coordination of resources through which business unit level strategies can be executed efficiently and effectively.

Functional units of an organization are involved in higher level strategies by providing input into the business unit level and corporate level strategy, such as providing information on resources and capabilities on which the higher level strategies can be based. Once the higher-level strategy is developed, the functional units translate it into discrete action-plans that each department or division must accomplish for the strategy to succeed.

Strategic decision-making

Strategic decisions are the decisions that are concerned with whole environment in which the firm operates the entire resources and the people who form the company and the interface between the two.

Characteristics/Features of Strategic Decisions

a. Strategic decisions have major resource propositions for an organization. These decisions may be concerned with possessing new resources, organizing others or reallocating others.
b. Strategic decisions deal with harmonizing organizational resource capabilities with the threats and opportunities.
c. Strategic decisions deal with the range of organizational activities. It is all about what they want the organization to be like and to be about.
d. Strategic decisions involve a change of major kind since an organization operates in ever-changing environment.
e. Strategic decisions are complex in nature.
f. Strategic decisions are at the top most level, are uncertain as they deal with the future, and involve a lot of risk.
g. Strategic decisions are different from administrative and operational decisions. Administrative decisions are routine decisions which help or rather facilitate strategic decisions or operational decisions. Operational decisions are technical decisions which help execution of strategic decisions. To reduce cost is a strategic decision which is achieved through operational decision of reducing the number of employees and how we carry out these reductions will be administrative decisions.

The differences between Strategic, Administrative and Operational decisions can be summarized as follows-

Strategic Decisions	Administrative Decisions	Operational Decisions
Strategic decisions are long-term decisions.	Administrative decisions are taken daily.	Operational decisions are not frequently taken.
These are considered where The future planning is concerned.	These are short-term based Decisions.	These are medium-period based decisions.
Strategic decisions are taken in Accordance with organizational mission and vision.	These are taken according to strategic and operational Decisions.	These are taken in accordance with strategic and administrative decision.
These are related to overall Counter planning of all Organization.	These are related to working of employees in an Organization.	These are related to production.
These deal with organizational Growth.	These are in welfare of employees working in an organization.	These are related to production and factory growth.

Decision making is a fundamental skill for any successful executive. But decisions at strategic level are hard to make. They require large amounts of resources and commitments which may be irreversible. They involve long-term consequences that are hard to predict. And, they require considering multiple, often conflicting, strategic objectives which are difficult to balance, particularly in the presence of risk and uncertainty

Steps in the Decision-Making Process of a Manager

Identify Problems

The first step in the process is to recognize that there is a decision to be made. Decisions are not made arbitrarily; they result from an attempt to address a specific problem, need or opportunity. A supervisor in a retail shop may realize that he has too many employees on the floor compared with the day's current sales volume, for example, requiring him to make a decision to keep costs under control.

Seek Information

Managers seek out a range of information to clarify their options once they have identified an issue that requires a decision. Managers may seek to determine potential causes of a problem, the people and processes involved in the issue and any constraints placed on the decision-making process.

Brainstorm Solutions

Having a more complete understanding of the issue at hand, managers move on to make a list of potential solutions. This step can involve anything from a few seconds of though to a few months or more of formal collaborative planning, depending on the nature of the decision.

Choose an Alternative

Managers weigh the pros and cons of each potential solution, seek additional information if needed and select the option they feel has the best chance of success at the least cost. Consider seeking outside have gone through all the previous steps on their own; asking for a second opinion can provide a new perspective on the problem and on potential solutions.

Implement the Plan

There is no time to second guess when the decisions are put into action. Once committed to put a specific solution in place, get all of the employees on board and put the decision into action with conviction.

Evaluate Outcomes

Even the most experienced business owners can learn from their mistakes. Always monitor the results of strategic decisions made as a small business owner; be ready to adapt the plan as necessary, or to switch to another potential solution if chosen solution does not work out the way you expected.

Strategic management process

The strategic management process means defining the organization's strategy. It is also defined as the process by which managers make a choice of a set of strategies for the organization that will enable it to achieve better performance. Strategic management is a continuous process that appraises the business and industries in which the organization is involved; appraises its competitors; and fixes goals to meet the entire present and future competitor's and then reassesses each strategy.

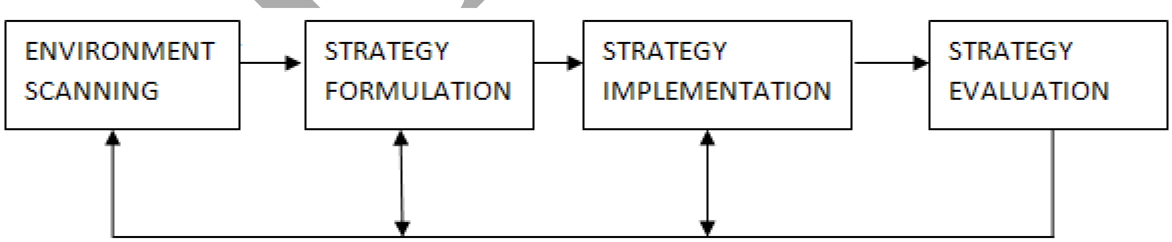
1. **Environmental Scanning-** Environmental scanning refers to a process of collecting, scrutinizing and providing information for strategic purposes. It helps in analyzing the internal and external factors influencing an organization. After executing the environmental analysis process, management should evaluate it on a continuous basis and strive to improve it.

2. **Strategy Formulation-** Strategy formulation is the process of deciding best course of action for accomplishing organizational objectives and hence achieving organizational purpose. After conducting environment scanning, managers formulate corporate, business and functional strategies.

3. **Strategy Implementation-** Strategy implementation implies making the strategy work as intended or putting the organization's chosen strategy into action. Strategy implementation includes designing the organization's structure, distributing resources, developing decision making process, and managing human resources.

4. **Strategy Evaluation-** Strategy evaluation is the final step of strategy management process. The key strategy evaluation activities are: appraising internal and external factors that are the root of present strategies, measuring performance, and taking remedial / corrective actions. Evaluation makes sure that the organizational strategy as well as it's implementation meets the organizational objectives.

These components are steps that are carried, in chronological order, when creating a new strategic management plan. Present businesses that have already created a strategic management plan will revert to these steps as per the situation's requirement, so as to make essential changes.



Components of Strategic Management Process

Strategic management is an ongoing process. Therefore, it must be realized that each component interacts with the other components and that this interaction often happens in chorus.

MISSION

Thompson defines mission as the ³essential purpose of the organization, concerning particularly why it is an existence, the nature of business it is in, and the customers it seeks to serve and satisfy. Hunger and Wheelen says that mission is the ³purpose or reason for the organization's existence.´

Difference between mission statement & vision statement

A mission statement answers three key questions:
What do we do?
For whom do we do it?
What is the benefit?

A vision statement, on the other hand, describes how the future will look if the organization achieves its mission. A mission statement gives the overall purpose of an organization, while a vision statement describes a picture of the "preferred future.´

Features of a Mission

a. Mission must be **feasible** and attainable. It should be possible to achieve it.
b. Mission should be **clear** enough so that any action can be taken.
c. It should be **inspiring** for the management, staff and society at large.
d. It should be **precise** enough, i.e., it should be neither too broad nor too narrow.
e. It should be **unique** and distinctive to leave an impact in everyone's mind.
f. It should be **analytical**,i.e., it should analyze the key components of the strategy.
g. It should be **credible**, i.e., all stakeholders should be able to believe it.

Need for Mission

1. To ensure unity of purpose within the organization.
2. To provide a basis for motivation.
3. To develop a basis , or standard, for allocating organization's resources.
4. To specify organizational purposes and the translation of these purposes into goals in such a way that cost, time and performance parameters can be evaluate and control.
5. To facilitate the translation of objectives and goals into a work structure.

Components of Mission Statement

1. Customers- who are the firms customers?
2. Products or Services - what are the firm's major products or services.
3. Markets- Geographically, where does the firm compete.
4. Technology- Is the firm technologically current?
5. Concern for survival, growth & profitability - is the firm committed to growth and financial soundness?

6. Philosophy - What are the basic beliefs, values, aspirations and ethical priorities of the firm?

7. Self concept - what is the firm/s distinctive competence or major competitive advantage?

8. Concern for public image - is the firm responsive to social, community, and environmental concern?

9. Concern for employees -are the employees a valuable asset of the firm?

Characteristics of an Effective Mission Statement

Every business comes into existence to serve a purpose. Some businesses seek to fill an essential gap in local services while others aim to replace or cut into the market share of existing businesses. In every case, an overriding mission drives the business. The purpose of a mission statement is to give a concise explanation of the business's reason for existing and its long-term goals. The exact form of a mission statement can vary, but effective mission statements typically include nine elements.

Function

The mission statement needs to include some description of the function of the business. For example, "to promote industrial excellence," tells customers and employees nothing. A more effective description would be "To provide management consulting services."

Target Consumers

An effective mission statement sets out, in broad terms, the target market. A manufacturer that makes nuts and bolts might set its target market as retail hardware stores, machine manufacturers, or both.

Target Region

The business must determine what region it serves best and relay that information by way of the mission statement. A garage, for example, might limit its target region to the community while a magazine company might target an entire country.

Values

Mission statements typically include a statement of company values. Values such as customer service, efficiency and eco-consciousness often appear on lists of company values. At their best, company values should express principles the company explicitly tries to affirm in day-to-day operations.

Technology

For businesses that rely heavily on technology, the mission statement should include a description of the essential technology the company does or plans to employ. If nothing else, this directs purchasing agents toward the appropriate vendors for goods and services.

Employees

Every company has a policy regarding its relationship with employees. A mission statement provides an opportunity to describe that policy in brief so employees know the essentials of where they stand.

Strategic Positioning

Effective mission statements also include a brief description of the business's strategic position within the market. For example, the company might excel at serving residential clients and seek to maximize that strategic advantage.

Financial Objectives

For for-profit ventures, businesses require clear financial objectives. A start-up company might set one of its financial objectives as making an initial public offering of common stock within two years. This lets the employees and potential investors know the company intends to go public, with all of the legal and record keeping ramifications that entails.

Image

Like people, companies develop public images. Careful companies craft the public image they want to establish and lay out the major features of it in the mission statement. This helps managers' direct employees that stray from the sanctioned public image.

Vision

Vision has been defined in several ways.

Kotler defines it as a description of something (an organization, corporate culture, a business, a technology, an activity) in future´.

EI-Namaki considers it as a mental perception of the kind of environmental individual, or an organization, aspires to create within a broad time horizon and the underlying conditions for the actualization of this perception´

Miller and Dess view it simply as the category of intentions that are broad ,all inclusive and forward thinking.´ The common stand of though evident in these definitions relates vision being future aspirations that lead to an inspiration to be best in one's field of activity.

The benefits of having a Vision

- Good visions are inspiring.
- Visions represent a discontinuity, a step function and a jump ahead so that the company knows what it is to be.
- Good visions help in the creation of common identity.
- Good visions are competitive, original and unique.
- Good visions foster (promote) long term thinking.
- Good vision foster (promote) risk taking and experimentation.
- Good vision represents integrity and can be used for the benefit of people.

Objectives

An organization's mission gives a framework or direction to a firm. The next step in planning is focusing on establishing progressively more specific organizational direction by setting objectives. An organizational objective is a target toward which the organization directs its efforts.

The board of directors is more concerned with mission, purpose and overall objectives. Middle managers are involved in Key Result Areas (KRAs), division and department objectives. At the lower level, group personal objectives are set. The objectives can be top down or bottom up taking the initiative from lower management.

Managers should develop organizational objectives that are

- specific
- require a desirable level of effort
- flexible
- measurable and operational
- consistent in the long and short run

Peter Drucker, perhaps the most influential business writer of modern times, has pointed out that it is a mistake to manage organizations by focusing primarily on one and only one objective. According to Drucker, organizations should aim at achieving several objectives instead of just one. Enough objectives should be set so that all areas important to the operation of the firm are covered. Eight key areas in which organizational objectives should normally be set are:

1. **Market standing**: the position of an organization – where it stands – relative to its competitors
2. **Innovation**: any change made to improve methods of conducting organizational business.
3. **Productivity**: the level of goods or services produced by an organization relative to the resources used in the production process. Organizations that use fewer resources to produce a specified level of products are said to be more 'productive than organizations that require more resources to produce at the same level.
4. **Resource levels**: the relative amounts of various resources held by an organization, such as inventory, equipment, and cash. Most organizations should set objectives indicating the relative amount of each of these assets that should be held.
5. **Profitability**: the ability of an organization to earn revenue dollars beyond the expenses necessary to generate the revenue. Organizations commonly have objectives indicating the level of profitability they seek.
6. **Manager performance and development**: the quality of managerial performance and the rate at which managers are developing personally. Because both of these areas are critical to the long-term success of an organization, emphasizing them by establishing and striving to reach related organizational objectives is very important.
7. **Worker performance and attitude**: the quality of non-management performance and such employee's feelings about their work. These areas are also crucial to long-term organizational

success. The importance of these considerations should be stressed through the establishment of organizational objectives.

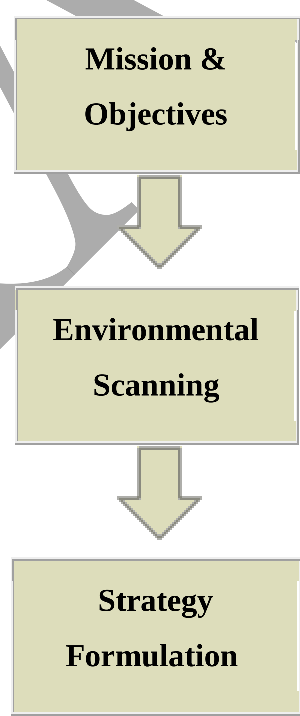
8. **Social responsibility**: the obligation of business to help improve the welfare of society while it strives to reach organizational objectives.

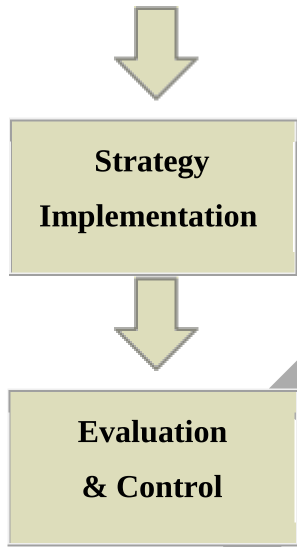
The Strategic Planning Process

In today's highly competitive business environment, budget-oriented planning or forecast-based planning methods are insufficient for a large corporation to survive and prosper. The firm must engage in **strategic planning** that clearly defines objectives and assesses both the internal and external situation to formulate strategy, implement the strategy, evaluate the progress, and make adjustments as necessary to stay on track.

A simplified view of the strategic planning process is shown by the following diagram:

The Strategic Planning Process





Mission and Objectives

The mission statement describes the company's business vision, including the unchanging values and purpose of the firm and forward-looking visionary goals that guide the pursuit of future opportunities.

Guided by the business vision, the firm's leaders can define measurable financial and strategic objectives. Financial objectives involve measures such as sales targets and earnings growth. Strategic objectives are related to the firm's business position, and may include measures such as market share and reputation.

Environmental Scan

The environmental scan includes the following components:

- Internal analysis of the firm
- Analysis of the firm's industry (task environment)
- External macro environment (PEST analysis)

The internal analysis can identify the firm's strengths and weaknesses and the external analysis reveals opportunities and threats. A profile of the strengths, weaknesses, opportunities, and threats is generated by means of a SWOT analysis

An industry analysis can be performed using a framework developed by Michael Porter known as Porter's five forces. This framework evaluates entry barriers, suppliers, customers, substitute products, and industry rivalry.

Strategy Formulation

Given the information from the environmental scan, the firm should match its strengths to the opportunities that it has identified, while addressing its weaknesses and external threats.

To attain superior profitability, the firm seeks to develop a competitive advantage over its rivals. A competitive advantage can be based on cost or differentiation. Michael Porter identified three industry-independent generic strategies from which the firm can choose.

Strategy Implementation

The selected strategy is implemented by means of programs, budgets, and procedures. Implementation involves organization of the firm's resources and motivation of the staff to achieve objectives.

The way in which the strategy is implemented can have a significant impact on whether it will be successful. In a large company, those who implement the strategy likely will be different people from those who formulated it. For this reason, care must be taken to communicate the strategy and the reasoning behind it. Otherwise, the implementation might not succeed if the strategy is misunderstood or if lower-level managers resist its implementation because they do not understand why the particular strategy was selected.

Evaluation & Control

The implementation of the strategy must be monitored and adjustments made as needed.

Evaluation and control consists of the following steps:

1. Define parameters to be measured
2. Define target values for those parameters
3. Perform measurements
4. Compare measured results to the pre-defined standard
5. Make necessary changes

BENEFITS OF STRATEGIC MANAGEMENT

- With the help of SM the problems can be prevented in the organization.

- Group based strategic decisions are most likely to reflect the best available alternatives
- Motivation to the employees.
- Gaps can be reduced among the employees.
- Resistance to the change can be reduced.
- It allows more effective allocation of time and resources to identified opportunities.
- It helps to integrate the behavior of individuals into a total effort.
- It provides a cooperative, integrated and enthusiastic approach to tackling problems and opportunities.
- It gives a degree of discipline and formality to the management of a business.

LIMITATIONS

- Using strategic planning to gain control over decisions and resources.
- Doing strategic planning only for regulatory requirements.
- Failing to communicate the plans to the employees.
- Top managers not actively supporting the strategic planning process.
- Being so formal that flexibility and creativity are stifled.

Critical success factor (CSF) is the term for an element that is necessary for an organization or project to achieve its mission. It is a critical factor or activity required for ensuring the success of a company or an organization. The term was initially used in the world of data analysis, and business analysis. For example, a CSF for a successful Information Technology (IT) project is user involvement.

"Critical success factors are those few things that must go well to ensure success for a manager or an organization, and, therefore, they represent those managerial or enterprise area, that must be given special and continual attention to bring about high performance. CSFs include issues vital to an organization's current operating activities and to its future success."

Critical success factors should not be confused with success *criteria*; those are outcomes of a project or achievements of an organization that are needed to consider the project a success or to esteem the organization successful. Success criteria are defined with the objectives and may be quantified by KPIs.

Determining the Predicament

Identifying critical success factors requires an understanding of strategic challenges to any organization. The challenges may be internally, among your competition or as a result of economic factors. By first determining which of these three areas is the best focus of managerial energy, it's possible to develop and implement a strategic plan. Many organizations are able to identify the critical success factors but then fail in the solution's implementation.

Competitive Environment

Learning about the demographic your organization servers defines your customer segmentation. Understanding how you service this demographic's need compared to competitors gives you the understanding of how you fare in the competitive environment. This identification process involves determining the expectations of consumers and how you meet their needs compared to your competitors.

Value Chain

Rather than focus on consumers, one way to identify critical success factors is to focus exclusively on your competition. Examining their costs, performance, quality control and production cycles can identify what gaps need to be filled by your organization. If your competitor is making the same product for half the price, you need to either reduce your costs or define an elite niche and raise the quality you offer.

Obstacles

It's important for management to be on the same page as critical success factors are identified and solutions are implemented. Without everyone being on the same page, obstacles will not be overcome by the organization and it will be less likely to succeed. To maintain synchronicity, everyone needs to understand the common goal so that clarity can be maintained.

Critical Success Factors in Business

Documenting and updating an organization's critical success factors allows a corporation to respond to outside forces, redirect internal focus and plan for that success, now and in the future. Communicating your organization's goals and strategies to the entire company provides a relevant starting point and focus for all individual, team and corporate decisions and directives.

Internal Factors

Internal critical success factors add direction to strategic choices and allow businesses to reach goals and achieve new milestones. Consider internal critical success factors when positioning your company for gains related to marketing efforts, the development of production strategies and dealing with internal barriers and influences. Examples of internal critical success factors include cultivating stronger supplier relationships to enhance market share and meeting quality standards set forth to meet production schedules and demands. When it comes to internal barriers and influences, critical success factors, such as implementing a successful training program or providing advancement opportunities to current employees, can help your company meet or exceed goals.

External Factors

Various factors influence external critical success factors. They include environmental factors, such as economic health and vitality, the current business climate and technological advancements. Changing economic times may lead to the need to adjust production levels and differentiate your products and services. The critical success factors that may help your corporation achieve adjusted goals and meet new challenges in this arena include attracting new customers with value added services or securing financing for a new product line. Remaining competitive within the current marketplace also requires keeping an eye on the industry and competition. Capitalizing on new developments, technologies and services may serve as a critical success factor when it comes to securing your share of the market.

Considerations

Consider critical success factors as the vehicle for completing projects, meeting objectives and growing your business. Work on identifying goals, and then initiate a series of critical success factors that can help you achieve them. For instance, the desire to expand internationally would require recruiting and retaining qualified executives. Other critical success factors can include everything from maintaining positive cash flow to ensuring controls are in place to satisfy inventory needs while preventing overstocks and out-of-date situations. Critical success factors change over time and require a constant re-evaluation of motives and measures of success.

STRATEGIC MANAGEMENT IN TODAY'S ENVIRONMENT

A. The Rule of Three. Competitive forces in an industry, if kept relatively free from government interference or other special circumstances, will inevitably create a situation where three companies dominate any given market.

B. New Directions in Organizational Strategies

1. E-Business Strategies. Using the Internet, companies have created knowledge bases that employees can tap into anytime, anywhere. E-business as a strategy can be used to develop a sustainable competitive advantage; it can also be used to establish a basis for differentiation or focus.

2. Customer Service Strategies. These strategies give customers what they want, communicate effectively with them, and provide employees with customer service training.

3. Innovation Strategies. These strategies focus on breakthrough products and can include the application of existing technology to new uses. An organization that is first to bring a product innovation to the market or to use a new process innovation is called a first mover.

Strategic management in India

After the economic liberalization announced in India in 1991, strategic management has gained greater relevance. In fact it is a major thrust area after the WTO meet of December 2005 held in Hong Kong. In view of this to make strategic management effective organizations are showing some new initiatives described here.

1. The abolition of public sector monopoly or dominance in a number of industries has enormously increased business opportunities. Many of them are high-tech and heavy investment sectors which make strategic management all the more relevant.

2. The delicensing has removed not only an important entry and growth barrier but also a consumption (and, therefore, demand) barrier. In the past, because of non-production/limited

production and import restrictions, many goods were non-available or had limited availability (in quantity and /or variety).

3. The scrapping of most of the MRTP Act restrictions on entry, growth and Mergers &Acquisitions (M&As) , along with the dereservation and delicensing of industries referred to above, have opened up floodgates of business opportunities for large enterprises.

4. The liberalization in policy towards foreign capital and technology, imports and accessing foreign capital markets provides companies opportunities for enhancing their strengths to exploit the

(i) Developing learning organization

Strategic flexibility demands a long-term commitment to the development and nurturing of critical resources. It also demands that the company become a learning organization – an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights. Organizational learning is a critical component of competitiveness in a dynamic environment. It is particularly important to innovation and new product development. For example, Hewlett-Packard uses an extensive network of informal committees to transfer knowledge among its cross-functional teams and to help spread new sources of knowledge quickly.

(ii) TQM implementation

The very purpose of strategic management is to win over its competitors. Total quality Management (TQM) is an organizational philosophy that aims at maximizing customer satisfaction by constantly striving to enhance operational efficiency through out the organization. It is a start to finish process that systematically integrates the strategy and all the function activities of the organization. Most of the Japanese companies adopted TQM practices in 1970 itself.

TQM method measures customers' needs, measures and evaluate customer satisfaction delivered by the product or service ,and engages the organization in continuous improvement to stay tuned-in to changes in customers' needs". The essential characteristics of TQM are:

o A customer-driven definition of quality

o Strong quality leadership

o Emphasis on continuous improvement

o Reliance on facts, data, and analysis

o Encouragement of employee participation

ISO 9000 certification and ISP 9002 etc., encourage organizations to embody these characteristics. According to Certo & Peter, the TQM philosophy demands total dedication to the customer and when an organization successfully implements TQM, it develops the following four characteristics.

Customers are intensely loyal. They are more than satisfied because the organization meets their needs and exceeds their expectations. The organization can respond to problems, needs and opportunities with minimal delays. It also minimizes costs by eliminating or minimizing tasks that do not add value.

The organization's climate supports and encourages teamwork and makes work more satisfying, motivating and meaningful for employees. The organization develops and nurtures a general ethic of continuous improvement. In addition, a method that employees understand leads them

toward a state of continuous improvement. It is imperative for a company, which has adopted the TQM to integrate it with every phase of the strategic management.

Environmental Analysis and TQM : The environmental analysis of a company with TQM connects the needs of the external customer (the entirety that buys the good or service of the company) with the various activities of the company.

Organizational Decision and TQM **:** TQM influences the organizational direction by embodying the quality philosophy in the organizational mission. Indeed, the missions of a number of organizations emphasize that quality and continuous improvement must drive every action of the organization.

Strategy Formulation and TQM **:** TQM helps make strategy implementation very efficient because of the clarity of organizational goals and direction, and the work and relationships culture fostered by TQM.

Strategic control and TQM : Systems established under TQM and the favorable change in the organizational culture make strategic control more effective. Benchmarking also helps efficient control.

Information technology adaptation

Until the mid 1989 business firms were successfully making profits without using Internet or launching their websites. Today virtual shopping and online retailing supplement brick and mortar sales. A great success is that of amazon.com, which do not involve in brick and mortar retailing at all. All their sales come from online business only today. Space providers like e-bay.com are becoming increasingly popular in India after taking over bazee.com. Executives today are electronic executives who cannot operate without World Wide Web.

Globalizing operations

Nike and Reebok, for example, manufacture their athletic shoes in various countries thorough out Asia for sale on every continent. Instead of using one international division to manage everything outside the home country, large corporations are now using matrix structure in which product units are interowen with country or regional units. International assignments are now considered key for anyone interested in reaching top management.

As more industries become global, strategic management is becoming an increasingly important way to keep track of international developments and position the company for long term competitive advantage.

MAJOR CORPORATE STRATEGY FRAMEWORKS: AN ASSESSMENT

Taking a long sweep, four major corporate strategy frameworks have emerged — 'SWOT' during the 1960s, 'Strategic Planning Matrix' in the 1970s, 'Competitiveness' in the 1980s, and 'Core Competency' in the 1990s. These frameworks distinguish themselves in terms of their high impact on research, learning, and practice of strategic management, and each one provided a definitive response to the corporate strategy questions. Interestingly, they emerged about a decade apace and all of them originated in the US.

Each framework was influential during its respective decade and following the suggested corporate response became the popular way. As these frameworks were extensively discussed and referred to in the media and investment circles, the American corporations often felt compelled to follow the prevailing trend. On the other hand, the latter frameworks did not disprove or subsume the earlier ones and it was more of supplanting the influence, somewhat akin to the 'fashion of the decade.' A few conclusions that can be drawn are as follows: •

Dramatic shifts in the analytical emphasis of frameworks:

While SWOT emphasized growth during the 1960s, there was a shift to profitability in the 1970s and the 1980s, and further on to market capitalization during the 1990s. The shifts related closely with the changes in the business requirements and the expectations from corporations and the respective frameworks provided a tool appropriate to the times. Therefore, no framework can be taken as intrinsically superior and each one can be the most appropriate for a particular situation, whether at an overall national business level or at an individual corporate level.

• **Shift in recommended response from entry into new areas to withdrawal:** The corporate strategy response favoured is opportunity led diversification in the 1960s and calibrated diversification in the 1970s, and the suggested response swings to other side with considered withdrawal in the 1980s and aggressive focus in the 1990s. This too relates closely with the American business context during the years leading to a definitive conclusion on the temporal nature of corporate strategy responses. It is the context that makes for right corporate strategy responses and neither diversification nor focus is appropriate for all the corporations and all the times.

• **Influence and popularity result from effective linking-up with the prevailing issues**: A new framework rose to prominence and supplanted the previous one when there was a shift in the nature of corporate aspirations and issues. The strategic planning matrix as well as the competitiveness framework were decidedly better tools to analyse and design corporate responses in the changed and different operating contexts of American business in the 1970s and the 1980s respectively.

• **Issues fall into two sets — consequences of earlier responses and of new forces and patterns:** The competitiveness framework addressed two types of issues — one, related to excessive diversification of corporations in the earlier decades of the 1960s and the 1970s, and two, related to challenge of Japanese competitors especially in automobile and electronics industries in the 1980s. This was broadly true for other frameworks as well. Therefore, the issues that corporations need to respond in a period is a concatenation of those rooted in the evolutionary past and those in newly emerging forces and considerations.

It is evident from the analysis that it is inappropriate to wholly transplant the latest, or for that matter any, corporate strategy framework to another decade even within the same country. The Indian corporate situation is vastly different and an appropriate framework needs to be rooted upon and evolved from the contextual factors prevailing therein. However, some useful generalizations can be made for the Indian corporate strategy framework — it is desirable to take a perspective of about a decade rather than aiming for and suggesting universality; one should delineate the issues from the evolutionary context, especially the intended and the unintended consequences of corporate strategy responses earlier; it is useful to outline new forces and patterns in the emerging context which needs to be addressed while evolving corporate strategy in the coming years; and, each of the frameworks developed in the American context could have important learning due to some underlying similarities in the context or desired responses.

The corporate strategy issues faced by Indian organizations in the coming decade, due to the ways and the reasons therein of their evolution till now, are deliberated upon in the next section. Thereafter, the major new forces that will impact on the strategic choices during the coming decade are outlined. An original corporate strategy framework for the Indian organizations is developed through juxtaposition of the issues and forces of evolutionary and emerging contexts in the section prior to 'conclusions.' The primary focus is on the private sector organizations, predominantly owned and managed by domestic promoters or investors and institutions, as the sector is likely to be the largest component and the principal driver of Indian business in the coming decade. However, the issues and forces as well as the corporate strategy framework will be broadly applicable to the other two sectors of corporate India — public sector organizations and the multinational subsidiaries.

POSSIBLE QUESTIONS

PART-A

Multiple Choice Questions

Online Examination

PART B

1. What is strategy?
2. What is business strategy?

3. What is functional strategy?
4. What is strategic management?
5. What is corporate strategy?
6. What are strategic business units?
7. What is Mission statement?
8. What are the components of mission?
9. Write a note on benefits on mission statement.
10. What is vision?
11. State the importance of Vision?
12. What is strategic intent?
13. List the features of vision statement.
14. What are objectives?
15. How objectives help business organizations?
16. What are business goals?
17. Give the importance of setting goals in organization.
18. Define Policy?
19. Distinguish between programs and procedures.
20. What are the four responsibilities of business?
21. What are the Responsibilities of the Board of Directors?
22. What are the responsibilities of the CEO?
23. What is strategic planning?
24. Mention the steps in strategic planning.
25. Mention the steps in strategic management process.
26. Distinguish between mission and goals of an enterprise.
27. What is meant by internal development of business.
28. What is strategic Leadership?
29. What is core- competency?
30. What is Distinctive competency?
31. Define Tactics.

32. What is Entrepreneurship?

33. What is Organizational inertia?

34. What is Competitive intelligence?

35. What is strategic decision making?

36. How do resources determine competitive advantage?

PART C

1. Identify the people responsible for strategy making at different levels in an organization

2. Explain the roles and responsibilities of Top level management in strategic planning.

3. Explain the critical success factors of the organization.

4.Discuss in detail about the steps involved in strategic management.

5. Explain the steps involved in Strategic Planning Process.

6. Give the significance of Mission and brief the contents of mission statement.

7. Outline the major components of the strategic management process. How are three levels of strategies different from each other?

8. Explain the role of employees in strategy implementation.

9. What is SBU? Explain its role

10. Explain the relationship between corporate level strategy and business unit strategy.

11. Discuss the importance and elements of vision of an organization.

12. Discuss in brief the competitive advantage of nations

13. Examine the core competence and its implication on Indian Business.

14. Enumerate the various ways in which different Indian organizations have set up their vision.

15. Explain about Business Level Strategy.

16. Explain about corporate Strategy

17. Discuss M Porter's approach for globalization.

18. What is meant by competitive advantage? How does Porter's strategy help in managing competitiveness?

19. Why is corporate strategic planning important? What might happen to a company if it does not have a clear strategy?

PART-D

Strategic maneuvers at Bharti Enterprises

The Indian telecom market is one of the fastest growing for mobile telecommunication services. Every three months a few million subscribers are added to the burgeoning base than 14 million new subscribers were added during January – march 2006 to take the total number of subscribers in India to over 90 million. That number, in a country of the billion plus population, is less than 10 per cent of the total population, is less than 10 per cent of the total population, indicating the huge market potential that would exist for quite some time.The mobile telecom industry in India is highly competitive with one of the lowest average revenue per unit in the world, thus making it a strategic challenge for the best of companies to operate successfully.

Among the market leaders is Bharti Airtel, a company belonging to the Bharti Enterprises group. It is currently (in 20007) the market leader with a slight edge over the government telecom service provider BSNL and the private service provide Reliance. Bharti's Airtel brand claims to have nearly 32 million subscribers. The businesses at Bharti Airtel have been structured into three individual strategic business units (SBUs) mobile services, broadband and telephone service and enterprise services.Sunil Bharti Mittal, chairman of the Bharti group of industries, is a first-generation entrepreneur from the state of Punjab, who has demonstrated his ability to think big and put ambitious plans into action. For Bharti Airtel, his strategies intent is "to create a globally admired telecommunication company". The stated vision of Bharti Airtel is 'to be the most admired brand in India by 2010' that will be loved by more customers, targeted by top talent and benchmarked by more business. In March 2006, Manoj kohli was named the president of the company, to lead the Airtel management board which will have the overall responsibility of driving the strategy and the operational performance.

Three joint presidents were looking after three SBUs and four functional directors of finance and business integration. IT and networks make up the top executive management at Bharti Airtel.The group corporate office of Bharti Airtel will focus on the overall business strategy, provide support to the Airtel management board and conduct periodic reviews and governance. Four of the functional roles at the president's office .i.e., finance, HR, legal and networks will have functional reporting to the corporate office. The corporate strategy of Bharti Enterprises seems to be of strategic alliances with global companies for rapid growth in sunrise industries through access to finance and established market brands.

For instance, Bharti Airtel has strategic alliances with singtel and Vodafone as investors. Ericsson and Nokia are mobile network equipment partners. Other equioment suppliers include Siemens, Nortel and Corning. With IBM, there is an information technology alliance for group-wide information technology requirements. In late 2006, Bharti Enterprises announced its foray into retailing in alliance with Wal-Mart, where the latter will provide backend logistics support involving sourcing and Bharti will handle the front-end retail aspect by setting up stores across India.

Questions:

1.Write the corporate, business and functional strategies.

2.What do you understood about the strategic alliance and why it is needed?

3.What is the vision of Bharati Enterprises and state whether they have achieved it or not

UNIT-II- ENVIRONMENT ANALYSIS

SYLLABUS

Unit II Environment Analysis and Internal Analysis of Firm: Concept of Environment – Environmental sectors - General environment scanning – Industry analysis – Porter‘s approach. Porter‘s competitive strategies - Dynamics of internal environment - Assessing internal environment through functional approach and value chain – SWOT analysis – Core competence

BUSINESS ENVIRONMENT
Business is dynamic in nature, it is affected and it affects the society. Thus, the business environment is vital to study before, during and after establishing a business.

CLASSIFICATION OF BUSINESS ENVIRONMENT
Business Environment is broadly classified as;
INTERNAL ENVIRONMENT and EXTERNAL ENVIRONMENT

Internal Environment can be controlled, while the External Environment cannot be controlled. Similarly, internal environment does not influence external environment. But external environment thoroughly influences the internal environment. This is schematically represented below;
These five forces are;

1. Threat for new entrants
2. Threat for substitutes
3. Bargaining power of buyer
4. Bargaining power of supplier
5. Industry competitor rivalry

These five forces are further subdivided as follows;

THREAT FOR/FROM NEW ENTRANTS

- The list of factors under this are
- Economics of scale
- Brand Identity
- Capital Requirement
- Proprietary Product differences
- Switching costs
- Access to distribution
- Proprietary learning curve
- Access to necessary inputs

- Low cost product design
- Government policy
- Expected competition

THREAT OF SUBSTITUTES

This threat is determined by
- Relative performance of substitutes
- Switching (changing costs)
- Buyers' chances to substitute

BARGAINING POWER OF BUYERS

The bargaining power of buyer constitute of
- Buyer concentration
- Buyer volume
- Switching costs
- Buyer information
- Buyer profits
- Substitute products
- Pull – through
- Price sensitivity
- Price/ total purchase
- Product difference
- Brand loyalty
- Ability to integrate backward
- Impact of quality / performance
- Decision makers' incentive

BARGAINING POWER OF SUPPLIERS

The sources of bargaining power of suppliers are
- Switching costs
- Differentiation of inputs
- Supplier concentration
- Prescience of substitute inputs
- Importance of volume to suppliers
- Impact of inputs on cost or differentiation
- Threat of forward / backward integration
- Cost relative to total purchase in industry

INDUSTRY COMPETITORS' RIVALRY

The factors affecting rivalry are;

- Industry growth
- Concentration and balance
- Fixed costs / value added
- Intermitted over capacity
- Product differences
- Brand loyalty
- Switching costs
- Information complexity'
- Diversity of competitor
- Corporate stakes
- Exit barriers

EXTERNAL (MACRO) ENVIRONMENT

While these above listed factors a part of the micro environment, the macro environment constitutes of;

- Socio-cultural environment
- Economic environment
- Technical environment
- Political – legal environment
- International (world) environment
- Natural environment

All these play a crucial role, as these aspects of the environment, are uncontrollable. Thus, understanding them in detail we have;

SOCIO – CULTURAL ENVIRONMENT

The cultural habits, values of the society, influence the society and culture, individuals and thus the business, since individuals buy or are the consumers of business.

EXAMPLE: McDonalds' shifting to Vegetarian, chicken and mutton Burgers in place of Beef and Hamburgers.

ECONOMIC ENVIRONMENT

The GNP, per capita income, growth rate, inflation and all these play a very important role. Besides the economic cycle of the country like boom, recession, depression or recovery. This will decide the companies to enter into the market, diversify, expand, etc.

EXAMPLE: Growth rate decides investment in securities, Gold, etc., so, Gulf i.e., Middle Eastern and south eastern countries invest more in these.

TECHNOLOGICAL ENVIRONMENT

The progress of technology in the country and the utilization of such technology in the industry also affects markets.

EXAMPLE: up gradation of Hardware, software; use of equipment with do not harm environment.

POLITICAL ENVIRONMENT
The political situation i.e., stable/unstable government, the political philosophy of the party in power, the type of government, the policies that is adopted plays a vital role. The laws, acts and the legal machinery and establishment and enforcement of law to play a very vital role, even the relations with other countries is crucial

EXAMPLE: the EXIM policy, Trade policy, Regional Associations, Economic Policy, Budget Customs, Duties, etc

INTERNAL OR MICRO ENVIRONMENT IN DETAIL

Earlier the Five forces influencing Internal or Micro environment were given, the discussion now in detail; these five forces are;

I) THREAT FOR / FROM NEW ENTRANTS

Now understanding the factors a little more in detail we have;

a) ECONOMIES OF SCALE

Most of the existing organization are already when functioning well, would have achieved or will be on the verge of achieving the break even or even attaining economics of scale. Then, these new organizations or entrants will take a long time to gestate (come to original or living state) in the mean while, the existing organizations van either crush it or swallow it. There by eliminating new entrants. However, the existing organizations do face problems when new entrants into the market. They need not take up R & D, but they can imitate the existing products and manufacture them at a lesser price. There by these new entrants not only enter the market with a lesser price product, but also sell more number of products. By these volume based sales, they achieve higher profits (sales maximization) and thus slowly either lead the market in any one segment or become 2nd or 3rd in the market leadership. By these two methods a new entrants faces threat in terms of economics of scale.

b) BRAND IDENTITY

Good brands which are well established and are deeply marked into the brains of the people, they cannot be easily removed from their brains, thus, the new entrants face threat. But that is one reason why duplicate can create a problem.

c) CAPITAL REQUIREMENT

The new entrants being small need only small amount of capital the plus point being that they need not invest in R & D or heavy infrastructure. However, being new entrants, the finance will be tight, and financiers do not lend or loan money in large sums unless the brand name is trusted. Thus, new entrants face trouble in meeting finance demands.

d) PROPRIETORY PRODUCT DIFFERENCE

Patented products cannot be imitated and thus, there need to be difference. These differences can be problems which are solved by the new products. These small differences make up for the big profits. However, unless these small differences exist the new products cannot survive. These small differences are the major threats the existing products.

e) SWITCHING COSTS

Each time technology is changed or products are modified there are additional costs added. This is a major problem with the existing products, as they need to keep changing their technology or modifying products to beat the imitators and competitors.

f) ACCESS TO DISTRIBUTION

New entrants penetrate deep as they have greater access to all customers in a segment, i.e., they try to reach as many as possible. Others i.e., the existing players however reach only through the existing outlets only. Thereby they need to spend additional amount to reach the customers directly, so there is an additional requirements of sales force. Therefore this expenditure arises each time there is a new entrant. This is another threat.

g) PROPRIETARY LEARNING CURVE

The new entrants due to products aimed at the gaps will be able to reach the market at greater speed, so will imitations. The real researched or developed products take longer duration to reach. Yet though this is a drawback, it is an advantage to the existing firms because their research and learning is at their disposal.

h) ACCESS TO NECESSARY INPUTS

The availability of necessary inputs is an important factor that determines the position in the market. An existing firm can acquire a source of input or a holder of input may start a firm. Either way there is an advantage to the new entrant or the existing firm.

i) LOW COST PRODUCT DESIGN

Due to continuous research a firm may get a product design of low cost or an imitator without R & D can enter the market at low cost, better still, they may fill the gap with a better suited customer accepted design.

j) GOVERNMENT POLICY

The government may decide on open competition and more number of players may be asked to enter into the market. Further, the government may fix the price too without identifying imitator and original, thereby leading to further problems, of competition among rivals.

k) EXPECTED COMPETITION

There is an amount of competition that every organization expects, both the established and the unestablished. While established need to worry only about a few, the new entrants take the entire market as competition, thus, battling becomes difficult.

II) THREAT OF SUBSTITUTES

Now trying to understand the list of factors in detail, we have;

a) RELATIVE PERFORMANCE OF SUBSTITUTES

Any organization and product faces competition and rivalry. However, the competition is greater from rivals or competitors who perform well, as they become substitute to the products. But products which perform not upto mark won't trouble the competition.

b) SWITCHING (CHANGING) COSTS

When customers or consumers change or switch from one brand to another or from one company's product to another they face or problem of bringing those customers' back and keeping them loyal to their product or brand, this is an expensive job, so it involves lot of costs and thus arises switching costs or changing costs.

c) BUYERS' CHANCES TO SUSTITUTE

When the customer has a choice, then there are chances for substitution. However, if a certain product has that unique attribute or special feature due to which or by which they are distinguished, preferred, liked, and purchased, then there will be very little chance of substitution. Thus, unless an equally similar product with all the specialty, but with an additional attribute comes up, the chances of substituting remain slim, weak or little.

III) BARGAINING POWER OF BUYER

The following are the factors that come under this, now understanding them in detail, we have

a) BUYER CONCENTRATION

The lesser the buyers, then greater in chance to bargain by them, since there are very few buyers, they can withdraw from buying the product and soon the manufacturer will be at loss. However, certain factors influence this aspect. They include;

- Number of companies manufacturing the product

- The extent of utility of the product
- Durability of the product
- Availability of foreign buyers
- Alternate uses of the product
- Storage details and so on

If few manufacturers and large number of buyers exist in the market, then it becomes the other way around and the company's can manipulate the buyers and charge higher and make greater profits.

b) **BUYER VOLUME**

The volume of purchase also determines the capacity of the buyer to bargain. In other words, the larger the volume of purchases, the greater is their capacity to bargain and these influences the internal revenues or finance of the organization.

c) SWITCHING COSTS

A dissatisfied buyer or a more lucrative manufacturer, who is willing to sell his product at a lesser cost, will definitely take the buyer away. Thus, a manufacturer has to bring the customer (in this case the buyer) back, need to may be sell for lesser price, offer credit, discounts etc to regain them back. Each time a modification is made the manufacturer needs to take this up, so as to retain the customer and prevent them from switching.

d) BUYER INFORMATION

The buyers have access to some important information like the cost, availability, future increase or decline in price, government involvement, etc. these trigger a change in purchase pattern or bargaining patterns of buyers. Thereby either helping or hindering the manufacturers.

e) BUYER PROFITS

The amount of profit that a buyer makes is crucial for the buyer and the manufacturer. The buyer tries to maximize his profits, and the manufacturer wants to maximize his own profits. Thus, there is a keen battle between the two. The manufacturers offer greater benefits, discounts and price cuts for bulk purchase and thereby prompting the buyers to buy in bulk. However, the buyers want all the benefits that are offered for the amount or number of products that they buy or are willing to buy. Thus, since buyers are vital for the organization, many a time they wield to the buyers tactics.

IV) SUBSTITUTE PRODUCTS

The type of products being made influence others to copy, because they are going well in the market. Thus, if the product does well, then naturally several other products which are imitations or similar crop up. They have some variations and may click, due to superior packaging, cheaper price and so on. Then they become a threat.

a) PULL THROUGH

Many products have highly successful marketing companies backing and usually are pulled through to success. So, there instead of going through early hiccups and slowly and steady pick up and reaching the top, end up getting a kick start and reach the top fast.Buyers especially know the value of brand.

b) PRICE SENSITIVITY

It is normal for consumers to be sensitive to pricing. Hence, the products which have similar quality or attributes compete only with price.

c) PRICE / TOTAL PURCHASE

Many times, it is not the cost of a single purchase or the price of a single product that is purchased, but the cost or sum total of all the purchases made in that brand, which matters. This is the reason why organizations go for tag on sales or discounted sales to improve the sale of their products as buyers may buy a product here, but will purchase an additional attachment to it from another. This is what makes the differences.

d) PRODUCT DIFFERENCES

Minor changes also make large change in purchase. In other words, small product changes or modification usually bring about large changes in purchase pattern of buyers. Thus, every organization has to watch out on the changes made by competitors.

e) ABILITY TO INTEGRATE BACKWARD

Many buyers in other words, retailers and wholesalers after a period of time, start selling products in their own brand name. This becomes flexible when these middlemen have access to an economical source or they have their own manufacturing unit, on which they can depend upon. Thus, they make greater profits by overcoming the problem of giving percentage returns or commission to middlemen. Thus is called as backward integration.

f) IMPACT OF QUALITY / PERFORMANCE

Quality and / or performance play a major role in the purchase of any product. Thus, any product which has either quality or performance or both is a definite click with the market or with the buyers and hence succeed. Yet there are a segment of buyers for whom quality is not important in all cases, then it doesn’t matter as performance too will be less. But then these products will be priced low too. However, if a high priced product which is said to be of good brand name or quality doesn’t perform as expected, then it becomes a definite failure, as it wouldn’t be accepted among the buyers.

g) DECISION MARKERS' INCENTIVES

The benefit obtained by the decision maker also plays a key role in the purchase process. A customer may benefit from lesser price, or discount offer, tag on free purchase etc. but a retailer may benefit from free advertisements, better merchandise or free display, return or replacement of spoilt goods, greater handling of stock of by the company itself. These are indirect incentives given along with direct incentives of commission.

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V) BARGAINING POWER OF SUPPLIERS

The various sources of bargaining power of suppliers include the following factors in detail;

a) SWITCHING COSTS

A dissatisfied supplier or more lucrative manufacturers, who are willing to sell his product at a lesser cost, will definitely take the buyer away. Thus, a manufacturer has to bring the customer (in this case the supplier) suitable to his need, need to may be buy for lesser price, offer credit, discounts etc., to regain them back. Each time a modification is made the manufacturer needs to take this up, so as to retain the customer and prevent from switching in case of supplier. In other words the suppliers have to be given the best otherwise, they end up giving their supplies to others i.e., other manufacturers.

b) DIFFERENTIATION OF INPUTS:

The inputs given to the manufacturer for making a product not only vary from batch to batch but also from supplier to supplier. Thus, this differentiation in the inputs brings differences in the output also. Therefore, suppliers who give homogeneous input over a period of time or those who give quality input are accepted. Thus, suppliers who are able to provide similar quality input over a period of time have better bargaining power than the other suppliers over the manufacturer. These suppliers get better payment, credit and other facilities from the customer or manufacturer.

c) SUPPLIER CONCENTRATION:

The greater the suppliers the less is the chance for a supplier to bargain with the manufacturer. Thus, fewer suppliers have greater chance of bargaining, as they can become an oligopolistic market and then develop a fixed pattern of supply and price. This then provides a chance to bargain with manufacturers. Thus, suppliers never permit new entrants into the business. If they dare to then they either try to buyout their share or reduce the price so much that the new entrant will fail to reach that low price that they can't lose their business or get loss. So, they leave the business. Thus, the supplier leads again.

d) PRESENCE OF SUBSTITUTE INPUTS:

When there are alternative inputs then naturally the bargaining power of suppliers goes down. Thus, substitute inputs are always threats to suppliers. However, suppliers do try to over come these by trying to provide the manufacturers with

- Bulk purchase discounts
- Quality assurance

- Out time delivery of supplies
- Replacement with supplies are not upto the mark, etc

Besides this the substitute product should also be

- A close substitutes
- Should have same or more attributes
- Should be affordable
- Should have good quality
- Must be easily available
- Must be available in plenty
- Processing the input into output should not be difficult, etc

When the substitute products have these qualities then the substitute is equally successful in the market. Thus, they become a threat to manufacturers' suppliers.

e) IMPORTANCE OF VOLUME TO SUPPLIERS:

The suppliers should understand or realize the importance of volume ie., bulk orders. In other words bulk or voluminous orders bring about a lot of chance to negotiate, in terms of price-offs, discounts, credit terms, exchange risk taking and so on. This is vital for penetrating business.

f) IMPACT OF INPUTS ON COST OR DIFFERENTIATION:

Inputs or raw materials makes up 70% of the total cost of the product. Hence any change ie., reduction or increase in the cost of the input directly affects the cost and price of the product. Every manufacturer thus knows not to tamper with price due to the reasons that buyers will not be interested. However, the manufacturer should negotiate well so that the suppliers will not increase the price of the input, there by upsetting the entire cycle. Similarly, differentiation in inputs may change the product quality wise or in any other sense. But until the customers are convinced that the input or product has quality, (even when the supplier has increased the price) the products price should not be increased. Suppliers noting that the product is being sold well, try to increase the cost of the input, so that they make profits. All these have to be monitored.

g) THREAT OF FORWARD OR BACKWARD INTEGRATION:

The supplier just with his experience, reach or financial worthiness may plan to integrate forward and manufacture the product himself. This will then cause problem to manufacturers. Since, suppliers has raw materials available at lesser cost than manufacturer, their products can be sold in the market at cheaper prices. The other threat is if the supplier goes into backward integration and takes over a source of raw material. Then it has greater chances to bargain because, it can provide large volumes of raw material, may start to competitors, and so. On, all these act as threats from the suppliers.

h) COST RELATIVE TO TOTAL PURCHASE IN THE INDUSTRY:

The comparison in the cost with respect to the total amount purchased in the whole industry is to be taken up. If the product is purchased by many manufacturers and the amount of money involved in the purchase of material in the overall industry is more. Then the product is considered vital and suppliers start negotiating the price of the inputs. Thus, fluctuating markets.

VI) INDUSTRY COMPETITORS' RIVALRY:
The major factors affecting this are listed as;

- Industry growth
- Concentration and balance
- Fixed costs / value added
- Intermittent over capacity
- Product differences

They are discussed in detail below;

a) INDUSTRY GROWTH:
The industry growth ie., faster the industry grows, greater will be the number of competitors, as new entrants swarm the industry. In other words, the growth of an industry makes more people to invest, start associated companies, and also seek employment. This triggers a great competition as more and more the brand name, greater will be the investments. Thus, each company, big or small is a competitor or rival.

b) CONCENTRATION AND BALANCE:
The number of competitors in an industry is termed concentration. That is, the number of alternative products or services available for one need. Balance is that sensitive situation where there is enough demand and supply or may be a slight difference in the demand and supply. If there is vast difference then the balance collapses. Similarly, he competitors' should be able to provide what the customer wants, and also, at time more that what the customer expects. Then the customers' balance too is retained.

c) FIXED COSTS OR VALUE ADDED COSTS:
Every competitor provides a set of solutions or a gamut of services. What a customers requires besides these is the availability of value added services and their costs.

- The value added services can be;
- Free maintenance for the first year
- Free insurance for the first year
- Transportation to the premises free of cost
- Replacement when required
- 24 hour helpline
- easy availability of genuine spare parts and so on

d) INTERMITTANT OVER CAPACITY:
The competitors should be in a position to take up over production capacity, suddenly when there is a spurt in demand. If this is not possible by a company, then the competitors will take over that sudden spurt and the company tends to lose valuable customers.

e) PRODUCT DIFFERENCES:
Without differentiation, products cease to exist in the market. Thus, differentiation is the reason behind successful brand. Every product must compete on some unique selling proposition which is

the platform by or on which a product is identified and holds value in the eye of the customers. Thus, in any industry rival products should be in a position to differentiate itself.

EXTERNAL ENVIRONMENT FACTORS AFFECTING BUSINESS POLICY
The factors constituting the external environment may be divided into two interrelated sub-categories. Viz., remote environment and

- remote environment and
- operating environment

REMOTE ENVIRONMENT:
Remote environment consist of forces that originate beyond the generate approachable environment ie., the environment which cannot be handled. They constitute of;

- Political
- economics
- social
- technological and
- industry factors

POLITICAL
Stable political conditions influence the environment in which the company's operated. This helps in identifying with the predictability of business activities. Political instability or unrest, threats to law and orders, change in the ruling party ideology etc influence business considerably.

Categorically listing the factors which influence business environment on the outside and the sub factors under them we have some of the factors in the political environment which influence business are;

- political instability
- threat to law and order
- ideology of the ruling party
- interest in local business groups
- insurgency in border party
- dissent within ruling party
- international power associations
- foreign economics associations and their impact
- strength or power of the party in opposition
- trade agreements with trade unions
- coalition government, etc

SOCIAL FACTORS:
Some of the social factors influencing the business and the business policy are;

- population density
- inter-state migration

- rural – urban mobility
- growth of educational opportunities
- change in life style
- marriageable age of men and women
- values and attitudes of people towards life, family, spending
- size of the family
- women's participation in the work force
- consumer behaviour
- changes in the tastes and preferences of consumers
- corporate social responsibility of company

TECHNOLOGICAL FACTORS:

The several technologies based or technological conditions which influences the following factors;

- advice on diffusion of technology than invention
- social and economic factors influencing technology adoption
- availability of proper infrastructure facilities
- availing chances of collaboration.
- Current product conditions, and the extent to which the people using them are advanced in using these products of the market is not developed, then it is not suitable to have a highly technical market.

ECONOMIC ENVIRONMENT:
Anticipating the changes in the economic environment might have a bearing on the progress of trade and industry in future needs information processing with respect to the following aspects;

The existing state of economy and the stage of the business cycle (boom, depression, recession or recovery)

- The rate of growth of GNP and the per capita income at current and constant prices
- Rates of saving and investments
- Volume of imports and exports of different items
- Balance of payments and changes in foreign exchange reserves
- Fluctuations in currency exchange
- Percentage of interest of loans taken
- Agricultural and industrial production trends
- Changes in the distribution of income and wealth
- Expansion of transport and communication facilities
- Planned outlay in the private and public sectors, and priorities of development laid down in the five year plans
- Government budgetary, allocation, economic and fiscal policy provision
- Money in supply
- Rate of inflation
- Internal and external public debt etc

LEGAL OR REGULATORY CONDITIONS:
Legal or regulatory conditions and government policies too invariably affect the business and its policies. There are several such laws that govern Indian business houses. They include;

- The government should set right market failures. Which cause in equities and imbalances in the economy
- The government should ensure allocation of resources for proper economic development
- Industrial licensing
- Import restrictions
- Differential taxation
- Exemptions
- Remissions
- Foreign exchange control including control over the flow of cash, technology, foreign collaboration and joint ventures under FERA act
- Capital issues control Act, 1956
- Control over expansion of existing capacity
- Creation of excess capacity MRTP act
- Approval for Foreign Direct Investment (FDI)
- Securities Exchange Board of India (SEBI) for investor protection

NATURAL ENVIRONMENT
Natural environment affects businesses which are either dependent on it or are indirectly influenced. This factor plays a crucial role in several businesses.

EXAMPLE: insufficient monsoon affects agro based industries lack of power, industries using water suffer. Floods, snow, fog, earthequakes, volcanoes, etc are to be taken care before establishing i.e., the climate of the area needs to be forecasted or judged by earlier records before going in for setting up business. That is the reason factories are not set up in earthquake belts, regions often flooded and are near to volcanoes.

Environmental scanning
Environmental scanning is a process that systematically surveys and interprets relevant data to identify external opportunities and threats. An organization gathers information about the external world, its competitors and itself. The company should then respond to the information gathered by changing its strategies and plans when the need arises.

Types of Environmental Scanning:

Environmental scanning is a process of obtaining information from the environment. It helps prepare an organization to exploit the business opportunity by developing a sound resource base. Further, it also assists in preparing scenarios and to adjust with changes. Environmental scanning may be done in two ways as mentioned below:

Centralized scanning:

If some specific environmental components are only analyzed, it is called centralized scanning. Under this, the important components which are likely to exert considerable impact to the business are only analyzed. For example, if economic conditions are only studies, it is termed as centralized scanning. Since specific components are only scanned, this is economical. Likewise, it helps to save time as well. However, it is not a comprehensive method due to the study of specific components only.

Comprehensive scanning:

"If all the components of environment are analyzed in a detailed ans micro way, it is called comprehensive environmental scanning."

Process of Environmental Scanning:

Environmental scanning is a useful managerial tool for assessing the environmental trend. The following process is adopted for environmental scanning.

Study the forces and Nature of the Environment:

In the first step of environmental scanning, the forces of the environment that have got significant bearing in the growth and development of the business should be identified. They may be political, economic, sociology-cultural, technological, legal, physical environment and global components. After this, the nature of the environmental components is studied. The nature of environment may be simple or complex. It may also be stable or volatile. The nature of the environment affects a firm's ability to predict the future. Some business may be operating in simple environment and others in complex. When there is a high level of uncertainty and complexity in the environment, environmental scanning becomes more critical.

Determine the sources of Information:

After studying the process and nature of the environment, the sources of collecting information from the environment should be determined. There are different sources through which information on business environment may be collected. They are as follows:

Secondary sources:

- Newspapers, book, research articles, industrial and trade publications, government publication, and annual report of the competitors.
- Mass media:
- Radio, TV and Internet.
- Internal sources:
- Internal reports, management information system, data network, and employee.
- External agencies:
- Consumers, marketing intermediaries and suppliers.
- Formal studies:
- Formal research and study by employee, research agencies, and educational institutions.
- Spying and surveillance of the competitors.

Determine the Approach of Environmental scanning:

After determining the sources of information the approach of environmental analysis should be determined. There are mainly three approaches to environmental scanning. They are:

Systematic approach:

Under this approach, a systematic method is adopted for environmental scanning. The information regarding market and customer, government policy, economic and social aspects are continuously collected. In other words, the environment is monitored in a regular way. The timeliness and relevance of such information enhances the decision making capacity of the management.

Ad-hoc Approach:

Under this, specific environmental components are only analyzed through survey and study. Ad-hoc approach is useful for collecting information for specific project, evaluating the strategic alternative or formulating new strategies. It is not a continuous process.

Processed form approach:

Under this, the information collected from internal and external sources are used after processing them. Normally, the information obtained from secondary sources are processed and used as per the requirements of the business.

Scan and Assess the Trend:

This is the final step of environmental scanning process. It involves a detailed and micro study of the environment to identify the early signals of potential changes in the environment. It also detects changes that are already under way and shows the trend of the environment. The trend should be assessed in terms of opportunities and threats.

Techniques/Methods of Environmental scanning:

Environmental scanning is a technique of detail study of the environment. It is done to assess the trend of the environment and prepare the organization accordingly. There are different techniques/methods of environmental scanning. They are discussed below:

Executive opinion method:

It is also called executive judgement method. Under this environment is forecasted on the basis of opinion and views of top executives. A panel is formed consisting of these executives.

Expert opinion method:

Under this environment forecasting is based an opinion of outside experts or specialist. The experts have better knowledge about market conditions and customer taste and preferences. This method is similar to executive opinion method. However, it uses external experts.

Dephi method:

This method is extension of expert opinion method. It involves forming a panel of experts and questioning each member of the panel about the future environmental trend. Later, the responses and summarized and returned to the members for assessment. This process continues till the acceptable consensus is achieved.

Extrapolating method:

Under this method, the past information is used to predict the future. Different methods used to extrapolate the future are time series, trend analysis and regression analysis.

Historical analogy:

Under this, the environmental trends are analyzed with the help of other trends which are parallel to historical trend.

Intuitive reasoning:

Under this, rational and unbiased intuition is used for environmental scanning. Environmental dynamics are guessed individual judgement. Reliability of this method is questionable.

Scenario building:

Scenarios are the pictures of possible future. They are built on the basis of time ordered sequence of events that have logical cause and effect relationship with each other. Scenarios are built to address future contingencies.

Cross-impact matrix:

Under this, environmental forecasts through various methods are combined to form and integrated and consistent description of future. Cross impact matrix is used to assess the internal consistency of the forecasts.

Importance of Environmental Scanning:

Signals threats: It provides an early signal of threats, which can be defused or minimized if recognized well in advance.

Customer needs:

It signals an organization to the changing needs and requirements of the customers.

Capitalize opportunities:

It helps an organization capitalize opportunities earlier than the competitors.

Qualitative information:

It provides a base of objective qualitative information about the environment that can be utilized for strategic management.

Intellectual simulation:

It provides intellectual stimulation to managers in their decision making.

Image:

It improves the image of the organization as being sensitive and responsive to its environment.

Process of Environmental Analysis:

Scanning:

Environmental scanning involves the study of the general environment. It helps to identify the early signals of potential changes in the environment. It also detects changes that are already under way. It normally reveals ambiguous, incomplete, or unconnected data and information. The scanning system should be aligned with the organizational context. Hence, a scanning system designed for a volatile environment may be inappropriate for a stable environment. Many organizations even use special software and internet for environmental scanning.

Monitoring:

Monitoring involves observation of environmental changes to see the trend. It detects meaning in different environmental events and trends.

Scanning and monitoring are particularly important when a firm competes in a highly volatile environment. They help gather knowledge about markets and other components.

Forecasting:

Scanning and monitoring are concerned with events and trends in the general environment at a point in time. Forecasting involves developing feasible projections of what might happen and how quickly. It is done on the basis of changes and trends. Forecasting is a challenging work.

Assessing:

Assessing determines the timing and significance of the effects of environmental changes and trends that have been identified. It specifies the implications of that understanding. Assessing connects the data and information with competitive relevance. Equally important is interpreting the data and information to determine the trend as opportunity or threat for the organization.

Importance of the study of Business Environment:

It is necessary for a business to understand the environmental forces and conduct business accordingly. Hence, a business has to study the business environment in a continuous manner due to the following reasons:

First move advantage:

A business may get first mover advantage by identifying and exploiting the opportunities earlier than the competitors. It provides a sustainable competitive advantage to the business.

Strategy formulation:

Strategy is a long term action plan formulated and implemented for competitive advantage. They are formulated and implemented considering the internal as well as external factors. SWOT analysis is the foundation of strategy formulation. It examines strengths, weakness, opportunities and threats of the firm relative to the competitors and helps to develop different strategic alternatives and select the most suitable. Hence, environmental study or analysis is very important for strategy formulation.

Competitive analysis:

Competitive analysis is also called industry analysis. It shows the intensity of competition among firms that varies widely across industries. In involves analysis of rivalry among competing firms, potential entry of new competitors, potential development of substitute products, bargaining power of suppliers and bargaining power of consumers. They form industry environment and show the growth and profitability potentiality of a firm. Hence, study of business environment is crucial for competitive analysis.

Strategic control:

Strategic control involves re-examination of environmental assumptions to ensure the effectiveness of strategy implementation. It is an early warning system. Hence, it answers question "Are we moving in the right direction?" It aims to proactive and continuous questioning of the basic direction of the strategy. In this way, environmental analysis serves as the basis of strategic control.

Adaptation:

A business can achieve competitive advantage if it adapts with the environment and manages itself accordingly. Adaptation refers to the adjustment with the emerging environmental conditions and trend. It helps to maximize the environmental opportunities and mitigate likely threats.

Stability and sustainability:

Stability is business activities is important for sustainability. Fluctuation in business activities adversely affects the functional areas as production, marketing, finance, and human resource. For stability, a business should monitor its environment regularly and adjust accordingly. It eventually provide sustainability to achieve business goals.

Dynamism:

A firm can collect information from the environment if it studies it continuously. Further, it can detect the emerging trend and scenario from the environment and prepare itself to cope with the likely changes. It enhances competitive advantage of the firm.

Lobbying:

A business alone cannot influence the general environment. However, the environment may be influenced through formation of organized body like industry and trade federations. Environmental study and analysis enable them to understand the environment and lobby further to make it congenial.

Public image:

A business firm can improve its image by showing that it is sensitive to its environment and responsive to the aspirations of the public. The stakeholders continue to support the organization if it is sensitive to the organization. Stakeholders support enhances organizational effectiveness.

Industry Analysis

Definition of Industry Analysis

A market assessment tool designed to provide a business with an idea of the complexity of a particular industry. Industry analysis involves reviewing the economic, political and market factors that influence the way the industry develops. Major factors can include the power wielded by suppliers and buyers, the condition of competitors, and the likelihood of new market entrants.

An industry analysis is a business function completed by business owners and other individuals to assess the current business environment. This analysis helps businesses understand various economic pieces of the marketplace and how these various pieces may be used to gain a competitive advantage. Although business owners may conduct an industry analysis according to their specific needs, a few basic standards exist for conducting this important business function.

Industry analysis—also known as Porter's Five Forces Analysis—is a very useful tool for business strategists. It is based on the observation that profit margins vary between industries, which can be explained by the structure of an industry.

The Five Forces primary purpose is to determine the attractiveness of an industry. However, the analysis also provides a starting point for formulating strategy and understanding the competitive landscape in which a company operates.

Porter's Five Forces Analysis

The framework for the Five Forces Analysis consists of these competitive forces:

- **Industry rivalry** (degree of competition among existing firms)—intense competition leads to reduced profit potential for companies in the same industry
- **Threat of substitutes** (products or services)—availability of substitute products will limit your ability to raise prices
- **Bargaining power of buyers**—powerful buyers have a significant impact on prices

- **Bargaining power of suppliers**—powerful suppliers can demand premium prices and limit your profit
- **Barriers to entry** (threat of new entrants)—act as a deterrent against new competitors

Industry analysis and competition

Competition within an industry is grounded in its underlying economic structure. It goes beyond the behaviour of current competitors.

The *state of competition* in an industry depends upon five basic competitive forces. The collective strength of these forces determines profit potential in the industry. Profit potential is measured in terms of long-term return on invested capital. Different industries have different profit potential—just as the collective strength of the five forces differs between industries.

Industry analysis as a tool to develop competitive strategy

Industry analysis enables a company to develop a competitive strategy that best defends against the competitive forces or influences them in its favour. The key to developing a competitive strategy is to understand the sources of the competitive forces. By developing an understanding of these competitive forces, the company can:

- Highlight the company's critical strengths and weaknesses (**SWOT analysis**)
- Animate its position in the industry
- Clarify areas where strategic changes will result in the greatest payoffs
- Emphasize areas where industry trends indicate the greatest significance as either opportunities or threats

Industry analysis and structure

The five competitive forces reveal that competition extends beyond current competitors. Customers, suppliers, substitutes and potential entrants—collectively referred to as an extended rivalry—are competitors to companies within an industry.

The five competitive forces jointly determine the strength of industry competition and profitability. The strongest force (or forces) rules and should be the focal point of any industry analysis and resulting competitive strategy.

Short-term factors that affect competition and profitability should be distinguished from the competitive forces that form the underlying structure of an industry. Although these short-term factors may have some tactical significance, analysis should focus on the industry's underlying characteristics.

Industry Analysis:
Some Key Success Factors to Consider:

- Ability to attract new customers
- Ability to retain existing customers
- Ability to attract and retain good employees
- Successful advertising campaigns (success is measured on the increase in sales)
- Managing your service or product
- Managing your human resources
- Managing your cash flow
- Managing your revenue growth and your profit
- Utilization of operating capacity (if industry average is 80%, your goal will be to be higher than average)
- Strong distribution channels
- Low cost production structure (compared to the industry cost structure); could be through economies of scale or other operational efficiencies
- Strong technology capability
- Location to customers (if close, time to deliver to market will be relatively fast and shipping costs will be low)
- Sustainability of the business

Value Chain Analysis

The value chain also known as Porter's Value Chain Analysis is a business management concept that was developed by Michael Porter.In his book *Competitive Advantage* (1985), Michael Porter explains Value Chain Analysis; that a value chain is a collection of activities that are performed by a company to create value for its customers.

Value Creation creates added value which leads to competitive advantage. Ultimately, added value also creates a higher profitability for an organization.

Manufacturing companies create value by acquiring raw materials and using them to produce something useful. Retailers bring together a range of products and present them in a way that's convenient to customers, sometimes supported by services such as fitting rooms or personal shopper advice. And insurance companies offer policies to customers that are underwritten by larger re-insurance policies. Here, they're packaging these larger policies in a customer-friendly way, and distributing them to a mass audience.

The value that's created and captured by a company is the profit margin:

Value Created and Captured – Cost of Creating that Value = Margin

The more value an organization creates, the more profitable it is likely to be. And when you provide more value to your customers, you build competitive advantage.

Understanding how your company creates value, and looking for ways to add more value, are critical elements in developing a competitive strategy.

Michael Porter discussed this in his influential 1985 book "Competitive Advantage," in which he first introduced the concept of the value chain.

A value chain is a set of activities that an organization carries out to create value for its customers. Porter proposed a general-purpose value chain that companies can use to examine all of their activities, and see how they're connected. The way in which value chain activities are performed determines costs and affects profits, so this tool can help you understand the sources of value for your organization.

Elements in Porter's Value Chain

Rather than looking at departments or accounting cost types, Porter's Value Chain focuses on systems, and how inputs are changed into the outputs purchased by consumers. Using this viewpoint, Porter described a chain of activities common to all businesses, and he divided them into primary and support activities, as shown below.

Figure 1: Porter's Generic Value Chain

Primary Activities

Primary activities relate directly to the physical creation, sale, maintenance and support of a product or service. They consist of the following:

- **Inbound logistics –** These are all the processes related to receiving, storing, and distributing inputs internally. Your supplier relationships are a key factor in creating value here.
- **Operations –** These are the transformation activities that change inputs into outputs that are sold to customers. Here, your operational systems create value.
- **Outbound logistics –** These activities deliver your product or service to your customer. These are things like collection, storage, and distribution systems, and they may be internal or external to your organization.
- **Marketing and sales –** These are the processes you use to persuade clients to purchase from you instead of your competitors. The benefits you offer, and how well you communicate them, are sources of value here.
- **Service –** These are the activities related to maintaining the value of your product or service to your customers, once it's been purchased.

Support Activities

These activities support the primary functions above. In our diagram, the dotted lines show that each support, or secondary, activity can play a role in each primary activity. For example, procurement supports operations with certain activities, but it also supports marketing and sales with other activities.

- **Procurement (purchasing) –** This is what the organization does to get the resources it needs to operate. This includes finding vendors and negotiating best prices.

- **Human resource management** – This is how well a company recruits, hires, trains, motivates, rewards, and retains its workers. People are a significant source of value, so businesses can create a clear advantage with good HR practices.
- **Technological development** – These activities relate to managing and processing information, as well as protecting a company's knowledge base. Minimizing information technology costs, staying current with technological advances, and maintaining technical excellence are sources of value creation.
- **Infrastructure** – These are a company's support systems, and the functions that allow it to maintain daily operations. Accounting, legal, administrative, and general management are examples of necessary infrastructure that businesses can use to their advantage.

Companies use these primary and support activities as "building blocks" to create a valuable product or service.

Using Porter's Value Chain

To identify and understand your company's value chain, follow these steps.

Step 1 – Identify subactivities for each primary activity

For each primary activity, determine which specific sub activities create value. There are three different types of sub activities:

- **Direct activities** create value by themselves. For example, in a book publisher's marketing and sales activity, direct sub activities include making sales calls to bookstores, advertising, and selling online.
- **Indirect activities** allow direct activities to run smoothly. For the book publisher's sales and marketing activity, indirect sub activities include managing the sales force and keeping customer records.
- **Quality assurance** activities ensure that direct and indirect activities meet the necessary standards. For the book publisher's sales and marketing activity, this might include proofreading and editing advertisements.

Step 2 – Identify subactivities for each support activity.

For each of the Human Resource Management, Technology Development and Procurement support activities, determine the sub activities that create value within each primary activity. For example, consider how human resource management adds value to inbound logistics, operations, outbound logistics, and so on. As in Step 1, look for direct, indirect, and quality assurance sub activities.

Then identify the various value-creating sub activities in company's infrastructure. These will generally be cross-functional in nature, rather than specific to each primary activity. Again, look for direct, indirect, and quality assurance activities.

Step 3 – Identify links

Find the connections between all of the value activities that have been identified. This will take time, but the links are key to increasing competitive advantage from the value chain framework. For example, there's a link between developing the sales force (an HR investment) and sales volumes.

There's another link between order turnaround times, and service phone calls from frustrated customers waiting for deliveries.

Step 4 – Look for opportunities to increase value

Review each of the sub activities and links that have been identified, and think about to change or enhance it to maximize the value you offer to customers (customers of support activities can be internal as well as external).

How to identify SWOT

SWOT analysis is a tool for strategy development. In conducting the analysis, a business organisation places itself in a conceptual environment where there are both opportunities and threats. It then identifies its inherent strengths and weaknesses, and plans how to make the best use of the opportunities available and minimise the threats. It also finds out how it can use opportunities to limit its weaknesses and to avoid threats. These steps together make up its strategies.

The CEO draws a "plus" sign on a display board to make four grids, and labels each of them as "Strengths," "Weaknesses," "Opportunities," and "Threats" (SWOTs), respectively.

He invites the participants to identify the company's SWOTs, reminding them that they should only use precise information drawn from the company documents for the analysis. The participants come up with the following data:

- Strengths: Good profits, product popularity, and safe ingredients of product
- Weaknesses: Poor performance of units in some regions and absence of easy-to-use packaging
- Opportunities: Growing market for ready-to-use food items and increasing popularity of instant soups
- Threats: Loss-making units eating up profits elsewhere and growing consumer awareness about harmful ingredients of packaged foods.

Using SWOT analysis to evolve business strategies

With the help of the SWOT analysis, the managers and the others at the meeting evolve strategies for maintaining the company's profits and ensuring its sustainability.

Matching strengths (availability of funds and product popularity) with opportunity (increasing market for instant foods including soups), the participants identify opening more factories as a strategy.

Matching strength (safe ingredients of product) with threat (growing awareness about food safety), they decide upon a strategy of launching a high-profile awareness campaign about the safe ingredients of ABC's soups.

Placing weakness (inadequate packaging) and opportunity (growing market) side by side, the participants see that it would be a good idea to sell the soup mix in a microwaveable container in which the consumer can cook soup directly.

Juxtaposing weakness (poor performance by some units) and threat (impact of loss-making units), they feel some of the loss-making units in some regions would have to be closed down.

Therefore, charting the results from the SWOT analysis, we have the following strategies evolved for ABC Soups:

- Strengths (funds' availability and product popularity) ↔ Opportunity (growing market for instant foods including soups) = Open more factories
- Strength (safe ingredients of product) ↔ Threat (awareness of food safety) = Launch a campaign about safety of soup mix
- Weakness (inadequate packaging) ↔ Opportunity (growing market) = Sell soup mix in microwaveable container
- Weakness (poor performance by some units) ↔ Threat (impact of loss-making units) = Close down loss-making units

As seen in the example above, businesses should be able to identify their SWOTs to evolve strategies. To recognise SWOTs, managers can ask themselves the following questions:

SWOT Analysis Template

Here are some questions to ask in order to get a better idea of your company's strengths, weaknesses, oppirtunities and threats.

Add other questions that may be relevant for your business and industry to create a SWOT analysis template that fits your corporate strategy.

Strengths (Internal Factors)

- What are we really good at?
- What are our best and unique skills?
- What internal talent do we have (staff)?
- What other resources do we have (funds)?
- What are our advantages over competitors?

Weaknesses (Internal Factors)

- What does our company lack (staff talent, funds, good location)?
- What departments or sections within the company are lagging behind?
- Where are we losing time and money?
- What skills aren't up to the mark?

Opportunities (External Factors)

- What are the market opportunities that we have?
- What are the changes in our external environment that we can take advantage of (changing laws, changing customer preferences)?
- Can we tap into new customer categories?
- Are there related businesses (products or services) that we can get into?

Threats (External Factors)

- What expertise do we lack in our efforts to use opportunities?
- What is it that our competitors are doing better than us?
- What's happening in the economy or industry that can adversely affect us?
- What are our biggest obstacles?

Strengths and weakness cover internal factors such as human resources, funds, infrastructure, and even past experiences, both good and bad.
Opportunities and threats relate to external factors such as changing consumer trends, economic and political factors, and laws.

When to use SWOT analysis

A SWOT analysis can be used at any stage in the life of a company. It can be used at the start, when it is being launched, or later, when it is implementing a new plan or reviewing plans mid-course. Of course, the analysis can also help find solutions to crises at any time.

Tips for SWOT analysis

- Managers and project leaders are "natural" participants at a SWOT meeting. However, a dealer or even a consumer volunteer can offer usable perspectives.
- A SWOT meeting is best held in a relaxed atmosphere, where participants can express their views frankly. It would be a good idea to allocate adequate time—a few hours, rather than a few minutes—to brainstorming.

- To identify strengths and weaknesses, only facts and confirmed data should be used, instead of opinions. Weakness or threats may hide an opportunity. Conversely, an opportunity easily identified can turn out to be a threat if competitors have also identified the opportunity.
- A SWOT analysis can be used in conjunction with core competency analysis and PEST (political, economic, social, and technological) analysis.
- Review meetings to discuss the progress of strategy implementation help keep plans on track

Drawbacks and limitations of the SWOT Analysis Framework

A SWOT analysis helps only if the identification of strengths and weaknesses is done honestly and candidly. Care should be taken to ensure that it does not deteriorate into an exercise to justify a past decision or strategy.
The objective should be to answer the question "Where do we go from here?" for the sake of the company.

Core Competencies

Introduction and definition

Core competencies are the collective learning in the organization, especially how to coordinate diverse production skills and integrate multiple streams of technologies.
"Core competencies" stand for what a corporation does best, its expertise in its field of business, and the uniqueness of its products in the eyes of its customers.

Core competencies reflect the fundamental knowledge and technical skills that make a corporation and its products "special." The core competencies of a corporation help it distinguish itself from its rivals and seize a competitive advantage in the marketplace.

Importance of core competencies for business

In their highly analytical, but also eminently readable, article, Prahalad and Hamel compared a few well-known corporations to show how some of them were able to build new fortunes while some others lost their markets, because of their ability or inability to "identify, cultivate, and exploit" their core competencies.

They predicted that managers in the coming decades would succeed or fail depending on their ability to leverage the core competencies of their corporations. The critical task of managers was to develop organisations capable of infusing products with "irresistible functionality," or, even better, create "products that customers need but have not yet even imagined."

Core competence is about dovetailing technology streams but also about the organisation of work and workforce and the delivery of value. Prahalad and Hamel pointed out that core competencies were about people:

Core competence is communication, involvement, and a deep commitment to working across organizational boundaries.

For example, world-class research in lasers or ceramics can take place in a corporate laboratory without, unfortunately, having an impact on any of the businesses of the company.

The skills that make up core competence must "coalesce around individuals whose efforts are not so narrowly focused that they cannot recognize the opportunities for blending their functional expertise with those of others in new and interesting ways."

The concept of core competencies was developed by Gary Hamel and C. K. Prahalad and published in their book, competing for the Future, which became a best seller in 1994. They suggested that business leaders view their organizations as a portfolio of competencies as well as a portfolio of products and services. It is this portfolio of competencies that provides the competitive edge needed to be successful in the future.

Development of core competencies takes time and continuous development. A competence is a bundle of skills rather than a discrete skill. It is this integration of skills that that define a core competence. Because a core competency is the sum of learning across individual skill sets and organizational units it is unlikely to reside in a single individual or small team. Understanding and developing core competencies is necessary to enable the organization to exploit the opportunities they provide.

Definition of organizational competencies

Every organization consisting of more than one person requires integrating the skills of others. Organizational competencies are functional capabilities and experience a firm possesses by virtue of the way it integrates and blends the individual skills of its employees to achieve a client benefit or make a significant contribution to the organization's financial health. Examples of organizational competencies are:

- Workers with knowledge and experience in client case management.
- Workers with knowledge and experience in planning, budgeting, and controlling costs.
- Workers with knowledge and experience in attracting, developing, and retaining a highly competent workforce.
- Workers with knowledge and experience in providing youth recreational programs.
- Workers with knowledge and experience in fund raising.

Each of these competencies requires integrating the skills of a number of people. Because they integrate these skills across departmental and functional lines they are not likely to be possessed in a single individual. The effectiveness of these competencies is determined by the personal skills required and how well the organization integrates them.

A core competence is a bundle of skills that enables an organization to provide a particular benefit to customers or the organization. A core competence is not product or service specific. Core competencies contribute to the development of a range of products and services which is why understanding and exploiting them is important for successful growth. Examples:

- Sony- customer benefit is pocket ability and core competence is miniaturization.
- Federal Express- benefit is on time parcel delivery and core competence is logistics management.
- Rosecrans- benefit is freedom from addictive behavior and core competence is adult and adolescent education.
- Carpenters Place- benefit is a changed lifestyle and the core competency is customized client case management.

These core competencies are not product or service specific. They enable these organizations develop a number of products and services which explains why they are important in developing their competitive strategy.

Organizational competencies must pass three tests to be considered core competencies.

1. The competency must make a significant contribution to customer perceived value or to the financial health of the organization.
2. The competency must be unique or performed in a way that is substantially superior to its peers.
3. The competency must be capable of being applied to a range of new products and services.

Fundamental organizational competencies

Business and nonprofit organizations require many competencies covering a range of functional activities (production, marketing, distribution, etc.) in order to function. Certain fundamental competencies are required by all organizations in order to operate effectively and carry out their mission. These competencies are called "table stakes" and define the standard level of competency the organization needs to sustain operations. Some examples of these fundamental competencies and skill sets all organizations require are:

Marketing. All organizations produce a product or service for a client and marketing is the function that creates the paying client. Without some competency in this function the organization would not have any clients. The marketing function includes the following skills:

- Identifying the product characteristics and service attributes to provide the desired client benefit and how to package these into the product or service offering.
- Determining the price for the products and services offered including discounts, sliding scale fees, etc. and how payment will be accepted.
- Determining how and where the products and services will be offered and by whom.
- Promoting the products and services, communicating with the prospective clients, and selling.

This function can be a source of core competency if the organization's success is created by its marketing expertise. Examples are organizations that must continually upgrade and improve their products and services.

Production or operations. This function includes all the skills required to produce the product or service to the requirements and specifications determined by the organization's marketing effort and making them available for purchase or delivery. This function is the most likely source of core competency if the organization provides a unique product or service.

- In service organizations this function consists of the development and delivery of the service to the client.
- For organizations that produce or sell a product this function may include purchasing and inventory management skills. Depending upon the scope of purchasing required these activities may be separated into separate functions.
- For distribution, retail, and food service type organizations this function should include procurement and inventory management skills.

Administrative. This is a catch all function that includes customer service, invoicing and bill paying, answering the phones, facility maintenance and repair, etc. Since these functions tend to be relatively routine they are not likely to be a source of core competence unless their facilities and customer service make a significant contribution to customer perceived benefits. Examples are hospitals, schools, and marketing organizations. In these cases these activities may be expanded into separate functions.

Accounting and Bookkeeping. All organizations must record and monitor the organization's income and expenses and most must prepare financial reports periodically. As a minimum all organizations must be able to record and categorize these transactions consistently. It is common for nonprofit organizations to contract these tasks to specialists and these competencies are not likely to be a source of core competency.

Payroll. Businesses need people to do the work and these people must be paid. All businesses must record the hours that workers provide to the business, the wages they are entitled to receive for their work and the salaries due to the salaried workers. This function includes paying these wages and salaries and the payroll taxes that are required by law. Usually nonprofit organizations contract this function to specialists and it is not likely to be a source of core competency.

Identify organization's core competencies

Core competencies require continuous improvement and development. Demands on organizations continue to escalate and today's core competencies may be tomorrow's table stakes. Because they are long term and resource intensive not all organizations possess core competencies. Very small organizations and organizations that provide standard services that are in high demand will usually not possess or need core competencies. Organizations that do not operate in a highly competitive environment such as government funded organizations or monopolies do not need to develop and exploit core competencies. Table stakes are more than adequate for their success. The clients using these organizations value adequacy not uniqueness. Examples are food pantries, homeless shelters, and soup kitchens.

Inventory your organizational competencies

The first step in identifying your core competencies is to develop an inventory of your organization's competencies and skills.

- Use the fundamental organizational competencies listed previously to identify the skills needed to enable your organization provide its products and/or services. Combine these skills into organizational competencies. Organizational competencies are bundles of skills possessed by a number of individuals many times across functional lines. They are more than the skills of a single person.
- Every organization consisting of more than one person requires integrating the skills of others. Organizational competencies require the integration of skills across functional lines. Example:
  - A food pantry manned largely by volunteers could identify the need for individuals with the following skills:
    - Skills in obtaining food donations and qualifying eligible clients (marketing)
    - Skills in receiving and inventorying donated food, packaging and distributing the food, and disposing of spoiled food (operations).
    - Skills in recruiting and supervising employees and recruiting and scheduling volunteers (human resources).
    - Skills in customer service, paying bills, answering phones, and maintaining and repairing the facilities (administrative).
  - Integrating these skills would provide the pantry with knowledge and experience in the collection and distribution of donated food.
- Other examples of organizational competencies:
  - Workers with knowledge and experience in providing youth recreational programs.
  - Workers with knowledge and experience in supervising and maintaining overnight shelters.
  - Workers with knowledge and experience in controlling costs.
  - Workers with knowledge and experience in fund raising.

Determine the organizational competencies that are core

A core competence is a bundle of skills that enables an organization to provide a particular benefit to customers. For each competency listed in your inventory, identify the customer benefit that results from that competency. The competency is not core if it cannot be associated with a customer benefit or a significant contribution to the financial health of the organization.

- Identify the benefit from each competency. Examples:
  - The customer benefit from knowledge and experience in the collection and distribution of donated food is free food.
  - The customer benefit from experience in providing youth recreational programs is constructive youth development.
  - The benefit from knowledge and experience in controlling costs is a reduction in operating expenses.
- Separate the competency from the product or service. Examples:
  - The competency associated with the collection and distribution of donated food is assistance to the needy. This is the purpose for distributing donated food.
  - The competency associated with providing youth recreational programs is youth education and development. The purpose of education is to change and shape behavior and that is what the recreational programs want to achieve.
  - The competency associated with experience in controlling costs is financial management. The purpose of financial management is to control the financial health of the organization.
- Combine the benefits and competency into a single statement. Examples
  - Competency: Workers with knowledge and experience in providing youth recreational programs.
    - Benefit: constructive youth development.
    - Competency: youth education and development.
  - Competency: Workers with knowledge and experience in controlling costs.
    - Benefit: reduction in operating expenses.
    - Competency: financial management

Use the core competency tests to determine the competencies that are core.

- Which of these competencies create customer perceived value throughout your product or service offerings or make a significant contribution to the financial health of your

organization?
    - Include the organizational competencies that provide the product characteristics, service attributes, or intangible features that convince your clients to use your products and services.
- Which of these competencies are unique to your organization or that your organization performs significantly better than its peers.
    - Identify the evidence that enables you to come to this conclusion.
- Which of these competencies provide opportunities for new products or services? Brainstorm some potential new products or services that can be developed from these competencies and what group of clients would value them.
    - Analyze whether these new products will provide an opportunity that is worth the risk of serving these customers.

Developing core competencies

Developing core competencies requires time and resources. They do not happen accidently. They must be planned and cultivated. This requires a strong management commitment to their planning and development. Core competency development must address the following issues.

- Determining the core competencies desired. Most organizations do not have the resources to develop core competencies in a multitude of areas. They must select the competencies needed to pursue the organization's competitive strategy and growth goals.
- Acquire people with the needed skills. The least expensive way to do this is to develop and train existing personnel. The alternative is to recruit people that have the needed skills. This could be a more expensive option but may be needed when the core competency must be developed quickly.
- The integration of these skills is usually a function of management to create the environment needed. The organization's management must recognize this need and plan how it will be accomplished.
- The core competency must be institutionalized through the organization's processes and procedures to become the natural way the organization acts.

Core competencies become one of the hallmarks of the organization. They are the driving forces of its competitive strategy and competitive advantage.

Identifying and building core competencies for business

Prahalad and Hamel mentioned three tests to identify core competencies in a company:

(1) Core competencies gives potential access to a wide variety of markets—for example, competence in optics made Canon a market leader in not only cameras but also laser printers.

(2) They contribute significantly to end-product benefits—for example, Honda's engines initially powered portable generators and later motorcycles and cars.

(3) They are difficult to imitate—for example, Sony's ability to miniaturize electronics.

In order to build core competencies, a corporation should

- understand which of its abilities customers value the most
- develop an intra-organisational think tank to isolate key abilities and make a plan to transform them into strengths across various departments
- depute key personnel ("competence carriers") and allocate funds to building core competencies for the organisation as a whole
- integrate technologies and coordinate diverse production skills
- opt for strategic alliances, acquisition, or licensing arrangements to strengthen core competencies
- observe competitors active in the same market to ensure that the core competencies being built are unique
- preserve the pursuit of developing core competencies even in the wake of organisational changes

In order to identify core competencies and build them, it is also necessary to understand what they are not. Core competencies are not necessarily about outspending competitors in research spending, opting for vertical integration, cutting costs by sharing resources among a corporation's business units, or outsourcing non-core processes to focus on core functions.

These may help, but by themselves they are not adequate to build core competencies.

Why build core competencies?

Core competencies go into the making of corporate strategies. They are also used to

- improve a corporation's position in its own market and also develop new markets
- integrate strategic thinking across all wings
- decide allocation of resources

- refine decisions on outsourcing, sale or disinvestment of divisions

Corporations that fail to exploit their core competencies are condemned to compete with their rivals on the basis of their product price.

When this strategy fails, they find themselves ousted from the market. They may then start thinking of core competencies, but that may be too late.

Building core competencies is an ambitious enterprise. Once built, they are strengthened by their constant use and deployment. "*But competences still need to be nurtured and protected; knowledge fades if it is not used,*"

Competencies Dealing with Business

1. **Diagnostic Information Gathering:** The ability to identify the information needed to clarify a situation, seek that information from appropriate sources, and use skillful questioning to draw out the information, when others are reluctant to disclose it

- Identifies the specific information needed to clarify a situation or to make a decision.
- Gets more complete and accurate information by checking multiple sources.
- Probes skillfully to get at the facts, when others are reluctant to provide full, detailed information.
- Routinely walks around to see how people are doing and to hear about any problems they are encountering.
- Questions others to assess whether they have thought through a plan of action.
- Questions others to assess their confidence in solving a problem or tackling a situation.
- Asks questions to clarify a situation.
- Seeks the perspective of everyone involved in a situation.
- Seeks out knowledgeable people to obtain information or clarify a problem.

2. **Analytical Thinking:** The ability to tackle a problem by using a logical, systematic, sequential approach.

- Makes a systematic comparison of two or more alternatives.
- Notices discrepancies and inconsistencies in available information.
- Identifies a set of features, parameters, or considerations to take into account, in analyzing a situation or making a decision.
- Approaches a complex task or problem by breaking it down into its component parts and considering each part in detail.
- Weighs the costs, benefits, risks, and chances for success, in making a decision.
- Identifies many possible causes for a problem.
- Carefully weighs the priority of things to be done.

3. **Forward Thinking:** The ability to anticipate the implications and consequences of situations and take appropriate action to be prepared for possible contingencies.

- Anticipates possible problems and develops contingency plans in advance.
- Notices trends in the industry or marketplace and develops plans to prepare for opportunities or problems.
- Anticipates the consequences of situations and plans accordingly.
- Anticipates how individuals and groups will react to situations and information and plans accordingly.

4. **Conceptual Thinking:** The ability to find effective solutions by taking a holistic, abstract, or theoretical perspective.

- Notices similarities between different and apparently unrelated situations.
- Quickly identifies the central or underlying issues in a complex situation.
- Creates a graphic diagram showing a systems view of a situation.
- Develops analogies or metaphors to explain a situation.
- Applies a theoretical framework to understand a specific situation.

5. **Strategic Thinking:** The ability to analyze the organization's competitive position by considering market and industry trends, existing and potential customers (internal and external), and strengths and weaknesses as compared to competitors.

- Understands the organization's strengths and weaknesses as compared to competitors.
- Understands industry and market trends affecting the organization's competitiveness.
- Has an in-depth understanding of competitive products and services within the marketplace.
- Develops and proposes a long-term (3-5 year) strategy for the organization based on an analysis of the industry and marketplace and the organization's current and potential capabilities as compared to competitors.

6. **Technical Expertise:** The ability to demonstrate depth of knowledge and skill in a technical area

- Effectively applies technical knowledge to solve a range of problems.
- Possesses an in-depth knowledge and skill in a technical area.
- Develops technical solutions to new or highly complex problems that cannot be solved using existing methods or approaches.
- Is sought out as an expert to provide advice or solutions in his/her technical area.
- Keeps informed about cutting-edge technology in his/her technical area.

7. **Initiative:** Identifying what needs to be done and doing it before being asked or before the situation requires it.

- Identifying what needs to be done and takes action before being asked or the situation requires it.

- Does more than what is normally required in a situation.
- Seeks out others involved in a situation to learn their perspectives.
- Takes independent action to change the direction of events.

8. **Entrepreneurial Orientation:** The ability to look for and seize profitable business opportunities; willingness to take calculated risks to achieve business goals.

- Stays abreast of business, industry, and market information that may reveal business opportunities.
- Demonstrates willingness to take calculated risks to achieve business goals.
- Proposes innovative business deals to potential customers, suppliers, and business partners.
- Encourages and supports entrepreneurial behavior in others.
- Notices and seizes profitable business opportunities.

9. **Fostering Innovation:** The ability to develop, sponsor, or support the introduction of new and improved method, products, procedures, or technologies.

- Personally develops a new product or service.
- Personally develops a new method or approach.
- Sponsors the development of new products, services, methods, or procedures.
- Proposes new approaches, methods, or technologies.
- Develops better, faster, or less expensive ways to do things.
- Works cooperatively with others to produce innovative solutions.

10. **Results Orientation:** The ability to focus on the desired result of one's own or one's unit's work, setting challenging goals, focusing effort on the goals, and meeting or exceeding them.

- Develops challenging but achievable goals.
- Develops clear goals for meetings and projects.
- Maintains commitment to goals in the face of obstacles and frustrations.
- Finds or creates ways to measure performance against goals.
- Exerts unusual effort over time to achieve a goal.
- Has a strong sense of urgency about solving problems and getting work done.

11. **Thoroughness:** Ensuring that one's own and others' work and information are complete and accurate; carefully preparing for meetings and presentations; following up with others to ensure that agreements and commitments have been fulfilled.

- Sets up procedures to ensure high quality of work (e.g., review meetings).
- Monitors the quality of work.
- Verifies information.
- Checks the accuracy of own and others' work.
- Develops and uses systems to organize and keep track of information or work progress.
- Carefully prepares for meetings and presentations.

- Organizes information or materials for others.
- Carefully reviews and checks the accuracy of information in work reports (e.g., production, sales, financial performance) provided by management, management information systems, or other individuals and groups.

12. **Decisiveness:** The ability to make difficult decisions in a timely manner.

- Is willing to make decisions in difficult or ambiguous situations, when time is critical.
- Takes charge of a group when it is necessary to facilitate change, overcome an impasse, face issues, or ensure that decisions are made.
- Makes tough decisions (e.g., closing a facility, reducing staff, accepting or rejecting a high-stakes deal).

POSSIBLE QUESTIONS

PART-A

Multiple Choice Questions

Online Examination

Part - B

1. What is business environment?
2. Name the different micro environments.
3. Name the different macro environments.
4. What is task Environment?
5. Write the name of factors in task environment?
6. What is societal Environment?
7. Give the components of political environment.
8. List the factors of legal environment affecting business.
9. Give a note on cultural environment.
10. What is meant by demographic environment?
11. Brief the need of environment analysis in organization.
12. How technological environment do influences the business?
13. Mention the role of technology in strategy development.
14. What is industry Analysis?
15. List the factors under threat for new entrants.

16. List the factors under for threat for substitutes.
17. Outline the components of Bargaining power of buyers.
18. Mention the factors of Bargaining power of supplier
19. Give the features of Industry competitor rivalry
20. What is environment scanning?
21. What are the different types of environmental scanning?
22. List the process of Environmental Scanning
23. Mention the sources of Information for environmental scanning.
24. State the factors of primary activities of value analysis
25. State the factors of support activities of value analysis
26. What is a strategic type?
27. What is a defender?
28. What are prospectors?
29. What are analyzers?
30. What are reactors?
31. What is durability?
32. What is limitability?
33. What is transparency?
34. What is Transferability?
35. List the sources of information for environmental scanning.
36. Define Value-Chain approach?
37. Write a note on functional approach.
38. What is SWOT analysis?
39. List down the advantages of SWOT.
40. Give the meaning of opportunities and threats.
41. What is meant by SWOT audit?

PART C

1. What is External Environment Analysis? Why is it required? Explain.
2. Enumerate the Internal analysis of firm.

3. How political and social factors in the environment affect strategic planning?
4. Explain in detail how environmental forces impact the crafting of a firm's strategy.
5. Explain in detail how social and cultural forces impact the crafting of a firm's strategy.
6. Discuss the policies governing legal environment.
7.Discuss general environmental scanning and how it differs from external and internal environment scanning.
8. Discuss the components of industry analysis.
9. Explain the value chain approach with suitable examples.
10. Explain the advantages and disadvantages of SWOT analysis to business units.
11.Briefly explain the steps for conducting the SWOT audit of a firm.
12. Identify and explain the factors that could either create opportunities or threats for Indian software companies in the near future.
13. Explain the Porter's Five Forces Model to analyze competitive forces in an industry environment.
14. Explain the importance of SWOT Audit.
15. Discuss the elements and implications of Porter's Five Forces Model of competition in an industry.

PART –D

Strategic moves by Mahindra Group

The corporate journey of the Mahindra group started in 1945 when one of the two brothers K.C Mahindra – the other being J.C Mahindra –was on a visit to the U.S both brothers were Professionals working with Tata Steel and Martin Burns respectively. K.C Mahindra visualized manufacturing jeeps for the rugged Indian roads. A franchises for assembling willys jeep was set up as Mahindra & Mohammad, who later become a finance minister in post-independence Pakisthan.In 1948, Mahindra & Mahindra came into being, keshub Mahindra is the Chairman of the Group and Anand G Mahindra is the managing director at present. The first diversification came in 1956, the shares of the Mahindra group were listed on the Bombay stock Exchange.

The decade of 1953-63 saw diversification mainly through collaborations and joint ventures with foreign companies. The Group entered varnishes and resins, machine tools, sintered products, alloy and special steel, and finally tractors in 1963. Tractors remain a core business at the Mahindra Group and it is a market leader in the industry and global player now.In 1965 came a major thrust into the automobile industry with the commencement of production of light with commercial vehicles. The first international foray in the form of exports of utility vehicles and spare parts started in 1969, making it the first attempt at geographical diversification for the Group.The next two decades, till 1985, were interspersed with strategic actions aimed at expansion in its mainline business of tractors. A major diversification occurred in 1986 with the Group entering the information technology sector. The milestone of India's second liberalization in 1991 coincided with the Mahindra Group diversifying into financial services.

A reorganization exercise business units' automotive, farm equipment, infrastructure, trade and financial services, information technology and Systech (Systems and technologies). The next five years, till the dawn of 2000, were marked by several related and unrelated diversification moves into related and infrastructure, passenger cars, holiday resorts, consultancy and education. By 2001, the Mahindra Group was not really in a good shape financially, with revenues of Rs 4352 crore, net profit of Rs 120 crore, and return on capital employed at 6.9 per cent. That made it embark on a financial reengineering plan, codenamed, operation Blue Chip, involving debt restructuring, defining the financial criteria that each business in the Group had to meet etc.

In the post-2001 period, the Group has been focusing on internationalization through mergers and acquisitions and joint ventures. The Group has been operation in several markets around the world in Europe, Africa, South America, South Asia, South-East Asia and the middle East. Its earlier experience of having a joint venture with Ford was not happy. Now it is to be seen whether its joint ventures with Renault of France and international Truck and Engine Corporation of the U.S prove to be successful. Going by the popularity of its vehicles like Scorpio, it may well look forward to success.

The Mahindra Group today is a 60-year old, widely diversified, US$4- billion- group with 58 subsidiaries, 4 joint ventures and 9 associate companies. It businesses span a wide range of sectors, industries and markets, including trade and financial services, automotive and farm equipment are its core businesses. The logic behind some of the diversifications may not be apparent- at least in the short-run – but Anand Mahindra, managing director, defends the strategic posture by saying I see myself as a venture capitalist and we have to constantly reallocate resources to newer ventures

Questions:

1. What are the core and distinctive competencies of M&M?

2. Was operation blue chip is a threat to M&M?

3. How does M&M avoided its failures and sustained its competitive advantage?

UNIT-III- STRATEGY FORMULATION

SYLLABUS

Unit III Strategy Formulation: Generic Strategies – Grand Strategies – Strategies of leading Indian companies – Role of diversification – Limits – Means and forms. Strategic management for small organizations, Non-profit organizations and large multi product and multiple market organizations.

INTRODUCTION:

Strategy formulation

It is useful to consider strategy formulation as part of a strategic management process that comprises three phases: diagnosis, formulation, and implementation. Strategic management is an ongoing process to develop and revise future-oriented strategies that allow an organization to achieve its objectives, considering its capabilities, constraints, and the environment in which it operates.

Diagnosis includes: (a) performing a situation analysis (analysis of the internal environment of the organization), including identification and evaluation of current mission, strategic objectives, strategies, and results, plus major strengths and weaknesses; (b) analyzing the organization's external environment, including major opportunities and threats; and (c) identifying the major *critical issues*, which are a small set, typically two to five, of major problems, threats, weaknesses, and/or opportunities that require particularly high priority attention by management.

Formulation, the second phase in the strategic management process, produces a clear set of recommendations, with supporting justification, that revise as necessary the mission and objectives of the organization, and supply the strategies for accomplishing them. In formulation, we are trying to modify the current objectives and strategies in ways to make the organization more successful. This includes trying to create "sustainable" competitive advantages -- although most competitive advantages are eroded steadily by the efforts of competitors.

A good recommendation should be: effective in solving the stated problem(s), practical (can be implemented in this situation, with the resources available), feasible within a reasonable time frame, cost-effective, not overly disruptive, and acceptable to key "stakeholders" in the organization.

It is important to consider "fits" between resources plus competencies with opportunities, and also fits between risks and expectations.

There are four primary steps in this phase:

* Reviewing the current key objectives and strategies of the organization, which usually would have been identified and evaluated as part of the diagnosis
* Identifying a rich range of strategic alternatives to address the three levels of strategy formulation outlined below, including but not limited to dealing with the critical issues
* Doing a balanced evaluation of advantages and disadvantages of the alternatives relative to their feasibility plus expected effects on the issues and contributions to the success of the organization
* Deciding on the alternatives that should be implemented or recommended.

In organizations, and in the practice of strategic management, strategies must be *implemented* to achieve the intended results. The most wonderful strategy in the history of the world is useless if not implemented successfully. This third and final stage in the strategic management process involves developing an implementation plan and then doing whatever it takes to make the new strategy operational and effective in achieving the organization's objectives.

STRATEGY FORMULATION PROCESS

Strategy formulation refers to the process of choosing the most appropriate course of action for the realization of organizational goals and objectives and thereby achieving the organizational vision. **The process of strategy formulation basically involves six main steps**. Though these steps do not follow a rigid chronological order, however they are very rational and can be easily followed in this order.

1. Setting Organizations' objectives - The key component of any strategy statement is to set the long-term objectives of the organization. It is known that strategy is generally a medium for realization of organizational objectives. Objectives stress the state of being there whereas Strategy stresses upon the process of reaching there. Strategy includes both the fixation of objectives as well the medium to be used to realize those objectives. Thus, strategy is a wider term which believes in the manner of deployment of resources so as to achieve the objectives.

While fixing the organizational objectives, it is essential that the factors which influence the selection of objectives must be analyzed before the selection of objectives. Once the objectives and the factors influencing strategic decisions have been determined, it is easy to take strategic decisions.

2. Evaluating the Organizational Environment - The next step is to evaluate the general economic and industrial environment in which the organization operates. This includes a review of the organizations competitive position. It is essential to conduct a qualitative and quantitative review of an organizations existing product line. The purpose of such a review is to make sure that the factors important for competitive success in the market can be discovered so that the management can identify their own strengths and weaknesses as well as their competitors' strengths and weaknesses.

After identifying its strengths and weaknesses, an organization must keep a track of competitors' moves and actions so as to discover probable opportunities of threats to its market or supply sources.

3. Setting Quantitative Targets - In this step, an organization must practically fix the quantitative target values for some of the organizational objectives. The idea behind this is to compare with long term customers, so as to evaluate the contribution that might be made by various product zones or operating departments.

4. Aiming in context with the divisional plans - In this step, the contributions made by each department or division or product category within the organization is identified and accordingly strategic planning is done for each sub-unit. This requires a careful analysis of macroeconomic trends.

5. Performance Analysis - Performance analysis includes discovering and analyzing the gap between the planned or desired performance. A critical evaluation of the organizations past performance, present condition and the desired future conditions must be done by the organization. This critical evaluation identifies the degree of gap that persists between the actual reality and the long-term aspirations of the organization. An attempt is made by the organization to estimate its probable future condition if the current trends persist.

6. Choice of Strategy - This is the ultimate step in Strategy Formulation. The best course of action is actually chosen after considering organizational goals, organizational strengths, potential and limitations as well as the external opportunities.

Three aspects of strategy formulation

The following three aspects or levels of strategy formulation, each with a different focus, need to be dealt with in the formulation phase of strategic management. The three sets of recommendations must be internally consistent and fit together in a mutually supportive manner that forms an integrated hierarchy of strategy, in the order given.

Corporate Level Strategy: In this aspect of strategy, we are concerned with broad decisions about the total organization's scope and direction. Basically, we consider what changes should be made in our growth objective and strategy for achieving it, the lines of business we are in, and how these lines of business fit together. It is useful to think of three components of corporate level strategy: (a) growth or directional strategy (what should be our growth objective, ranging from retrenchment through stability to varying degrees of growth - and how do we accomplish this), (b) portfolio strategy (what should be our portfolio of lines of business, which implicitly requires reconsidering how much concentration or diversification we should have), and (c) parenting strategy (how we allocate resources and manage capabilities and activities across the portfolio -- where do we put special emphasis, and how much do we integrate our various lines of business).

Competitive Strategy (often called Business Level Strategy): This involves deciding how the company will compete within each line of business (LOB) or strategic business unit (SBU).

Functional Strategy: These more localized and shorter-horizon strategies deal with how each functional area and unit will carry out its functional activities to be effective and maximize resource productivity.

Corporate level strategy

This comprises the overall strategy elements for the corporation as a whole, the grand strategy, if you please. Corporate strategy involves four kinds of initiatives:

* Making the necessary moves to establish positions in different businesses and achieve an appropriate amount and kind of diversification. A key part of corporate strategy is making

decisions on how many, what types, and which specific lines of business the company should be in. This may involve deciding to increase or decrease the amount and breadth of diversification. It may involve closing out some LOB's (lines of business), adding others, and/or changing emphasis among LOB's.

* Initiating actions to boost the combined performance of the businesses the company has diversified into: This may involve vigorously pursuing rapid-growth strategies in the most promising LOB's, keeping the other core businesses healthy, initiating turnaround efforts in weak-performing LOB's with promise, and dropping LOB's that are no longer attractive or don't fit into the corporation's overall plans. It also may involve supplying financial, managerial, and other resources, or acquiring and/or merging other companies with an existing LOB.
* Pursuing ways to capture valuable cross-business strategic fits and turn them into competitive advantages -- especially transferring and sharing related technology, procurement leverage, operating facilities, distribution channels, and/or customers.
* Establishing investment priorities and moving more corporate resources into the most attractive LOB's.

It is useful to organize the corporate level strategy considerations and initiatives into a framework with the following three main strategy components: growth, portfolio, and parenting. These are discussed in the next three sections.

COMPETITIVE (BUSINESS LEVEL) STRATEGY

In this second aspect of a company's strategy, the focus is on how to compete successfully in each of the lines of business the company has chosen to engage in. The central thrust is how to build and improve the company's competitive position for each of its lines of business. A company has competitive advantage whenever it can attract customers and defend against competitive forces better than its rivals. Companies want to develop competitive advantages that have some sustainability (although the typical term "sustainable competitive advantage" is usually only true dynamically, as a firm works to continue it). Successful competitive strategies usually involve building uniquely strong or distinctive competencies in one or several areas crucial to success and using them to maintain a competitive edge over rivals. Some examples of distinctive competencies are superior technology and/or product features, better manufacturing technology and skills, superior sales and distribution capabilities, and better customer service and convenience.

FUNCTIONAL STRATEGIES

Functional strategies are relatively short-term activities that each functional area within a company will carry out to implement the broader, longer-term corporate level and business level strategies. Each functional area has a number of strategy choices, that interact with and must be consistent with the overall company strategies.

Three basic characteristics distinguish functional strategies from corporate level and business level strategies: shorter time horizon, greater specificity, and primary involvement of operating managers.

A few examples follow of functional strategy topics for the major functional areas of marketing, finance, production/operations, research and development, and human resources management. Each area needs to deal with sourcing strategy, i.e., what should be done in-house and what should be outsourced?

Marketing strategy deals with product/service choices and features, pricing strategy, markets to be targeted, distribution, and promotion considerations. Financial strategies include decisions about capital acquisition, capital allocation, dividend policy, and investment and working capital management. The production or operations functional strategies address choices about how and where the products or services will be manufactured or delivered, technology to be used, management of resources, plus purchasing and relationships with suppliers. For firms in high-tech industries, R&D strategy may be so central that many of the decisions will be made at the business or even corporate level, for example the role of technology in the company's competitive strategy, including choices between being a technology leader or follower. However, there will remain more specific decisions that are part of R&D functional strategy, such as the relative emphasis between product and process R&D, how new technology will be obtained (internal development vs. external through purchasing, acquisition, licensing, alliances, etc.), and degree of centralization for R&D

activities. Human resources functional strategy includes many topics, typically recommended by the human resources department, but many requiring top management approval. Examples are job categories and descriptions; pay and benefits; recruiting, selection, and orientation; career development and training; evaluation and incentive systems; policies and discipline; and management/executive selection processes.

'Generic Strategies'

Michael Porter developed three generic strategies, that a company could use to gain competitive advantage,These three are: cost leadership, differentiation and focus.

Description: The cost leadership strategy advocates gaining competitive advantage due to the lowest cost of production of a product or service. Lowest cost need not mean lowest price. Costs are removed from every link of the value chain- including production, marketing, and wastages and so on. The product could still be priced at competitive parity (same prices as others), but because of the lower cost of production, the company would be able to sustain itself even through lean times and invest more into the business all throughout.

Examples are the TPS system developed by the Toyota Motor Company. The TPS system aims to cut costs throughout the company, but Toyota cars are still priced at almost the same levels as American or other Japanese cars.

Target Scope	*Advantage*	
	Low Cost	**Product Uniqueness**
Broad (Industry Wide)	**Cost Leadership Strategy**	**Differentiation Strategy**
Narrow (Market Segment)	**Focus Strategy** (low cost)	**Focus Strategy** (differentiation)

The 'differentiation' strategy involves creation of differentiated products for different segments. A variety of products, each branded and promoted differently with levels of function, allows a company to 'desensitize' prices, and on the basis of being different, charge premium or higher prices. This strategy also provides a hedge against different markets and product life cycles, allowing cash flow to come in even if a few products decline, while others grow or mature.

A prime example of this strategy is Hindustan Lever, which, while focused on FMCG, has a range of products even within the soaps category for different segments. Such a strategy needs strong segmentation, marketing and branding skills.

The 'focus' strategy involves focusing on a narrow, defined segment of the market, also called a 'niche' segment. For example, Porche markets to the particular segment that likes fast and expensive cars and can afford it. A company in a niche market has customers who understand, appreciate and can pay a premium for their indulgence. Competitive advantage - either by cost or differentiation- is created specially for the niche. But the risks are that the niche may not grow, or it may disappear with time and change.

Michael Porter's "Generic Strategies" Porter's five-forces model describes strategy as taking actions that create defendable positions in an industry.

•In general, the strategy can be offensive or defensive with respect to competitive forces.
•Defensive strategies take the structure of the industry as given, and position the company to match its strengths and weaknesses to it.
•In contrast, offensive strategies are designed to do more than simply cope with each of the competitive forces; they are meant to alter the underlying cause of such forces, thereby altering the competitive environment itself. There are, of course, many specific strategies of each type (offensive or defensive), and identifying which is best depends on the circumstances. But Porter suggests 3 broad or generic strategies for creating a defendable position in the long-run and outperforming competitors.

1) Cost Leadership
• Cost leadership means having the lowest per-unit (i.e., average) cost in the industry – that is, lowest cost relative to your rivals.
• This could mean having the lowest per-unit cost among rivals in highly competitive industries, in which case re turns or profits will be low but nonetheless higher than competitors. Or, this could mean having lowest cost among a few rivals where each firm enjoys pricing power and high profits.
• Notice that cost leadership is defined independently of market structure.
Cost leadership is a defendable strategy because:
I. It defends the firm against powerful buyers. Buyers can drive price down only to the level of the next most efficient producer.
II. It defends against powerful suppliers. Cost leadership provides flexibility to absorb an increase in input costs, whereas competitors may not have this flexibility.

III. The factors that lead to cost leadership also provide entry barriers in many instances. Economies of scale require potential rivals to enter the industry with substantial capacity to produce, and this means the cost of entry may be prohibitive to many potential competitors. Achieving a low cost position usually requires the following resources and skills:

I. Large up-front capital investment in new technology, which hopefully leads to large market share in the long-run, but may lead to losses in the short-run.

II. Continued capital investment to maintain cost advantage through economies of scale and market share.

III. Process innovation – developing cheaper ways to produce existing products.

IV. Intensive monitoring of labor, where workers frequently have an incentive-based pay structure (i.e., a contract which includes some combination of a fixed-wage plus piece-rate pay).

V. Tight control of overhead.

2) Differentiation

• Differentiating the product offering of a firm means creating something that is perceived industry wide as being unique.

• It is a means of creating your own market to some extent.

• There are several approaches to differentiation: ¾ Different design ¾ Brand image ¾ Number of features ¾ New technology.

A differentiation strategy may mean differentiating along 2 or more of these dimensions. Differentiation is a defendable strategy for earning above average returns because:

I. It insulates a firm from competitive rivalry by creating brand loyalty; it lowers the price elasticity of demand by making customers less sensitive to price changes in your products.

II. Uniqueness, almost by definition, creates barriers and reduces substitutes. This leads to higher margins, which reduces the need for a low-cost advantage.

III. Higher margins give the firm room to deal with powerful suppliers.

IV. Differentiation also mitigates buyer power since buyers now have fewer alternatives.

Achieving a successful strategy of differentiation usually requires the following:

I. Exclusivity, which unfortunately also precludes market share and low cost advantage.

II. Strong marketing skills.

III. Product innovation as opposed to process innovation.

IV. Applied R&D.

V. Customer support.

VI. Less emphasis on incentive based pay structure.

3) Focus or Niche Strategy

• Here we focus on a particular buyer group, product segment, or geographical market.

• Whereas low cost and differentiation are aimed at achieveng their objectives industry wide, the focus or niche strategy is built on serving a particular target (customer, product, or location) very well.

• Note, however, that a focus strategy means achieving either a low cost advantage or differentiation in a narrow part of the market. For reasons discussed above, this creates a defendable position within that part of the market.

Stuck in the Middle:

• Failure to develop a strategy in one of these 3 directions is a firm that is "stuck in the middle."

• This means you lack the market share, capital, and overhead control to be a cost leader, and lack the industry wide differentiation necessary to create margins which obviate the need for a low-cost position.

• Being "stuck" implies low profits as a rule: profits are bid away to compete with low cost producers; or, the firm loses high margin business to firms who achieve better differentiation.

• Classic examples of this problem are large, international airline companies, many of which are now bankrupt.

• Depending on a firm's capabilities and resources, a "stuck" firm must gravitate toward either low cost (usually by buying market share) or focus or differentiation (which may mean decreasing market share).

Risks of each Strategy:

Each generic strategy is based on erecting different kinds of defences against the competitive forces, and hence they involve different risks.

1) Cost Leadership:

Maintaining cost leadership can be risky because:

i. Innovations nullify past inventions and learning, and hence cost leadership requires continual capital investment to maintain cost advantage.

ii. Exclusive attention to cost can blind firms to changes in product requirements.

iii. Cost increases narrow price differentials and reduce ability to compete with competitors' brand loyalty.

2) Differentiation:

Risks are:

i. Cost differentiation between low cost firms and differentiating firms becomes too large to hold customer loyalty. Buyers trade-off features, service, or image for price.

ii. Buyers need for differentiation falls.

iii. Imitation decreases perceived differentiation.

Generic Strategies and Industry Forces

These generic strategies each have attributes that can serve to defend against competitive forces. The following table compares some characteristics of the generic strategies in the context of the Porter's five forces.

Generic Strategies and Industry Forces

Industry Force	*Generic Strategies*		
	Cost Leadership	**Differentiation**	**Focus**
Entry Barriers	Ability to cut price in retaliation deters potential entrants.	Customer loyalty can discourage potential entrants.	Focusing develops core competencies that can act as an entry barrier.
Buyer Power	Ability to offer lower price to powerful buyers.	Large buyers have less power to negotiate because of few close alternatives.	Large buyers have less power to negotiate because of few alternatives.
Supplier Power	Better insulated from powerful suppliers.	Better able to pass on supplier price increases to customers.	Suppliers have power because of low volumes, but a differentiation-focused firm is better able to pass on supplier price increases.
Threat of Substitutes	Can use low price to defend against substitutes.	Customer's become attached to differentiating attributes, reducing threat of substitutes.	Specialized products & core competency protect against substitutes.
Rivalry	Better able to compete on price.	Brand loyalty to keep customers from rivals.	Rivals cannot meet differentiation-focused customer needs.

Grand strategies

Definition: The Grand Strategies are the corporate level strategies designed to identify the firm's choice with respect to the direction it follows to accomplish its set objectives. Simply, it involves the decision of choosing the long term plans from the set of available alternatives. The Grand Strategies are also called as Master Strategies or Corporate Strategies.

The grand strategies are concerned with the decisions about the allocation and transfer of resources from one business to the other and managing the business portfolio efficiently, such that the overall objective of the organization is achieved. In doing so, a set of alternatives are available to the firm and to decide which one to choose, the grand strategies help to find an answer to it
A grand strategy is a strategy that provides the basic strategic direction at the corporate level. The two major classifications of grand strategies are growth strategies and retrenchment (defensive) strategies. The major growth strategies are: market penetration, market development, product development, forward integration, backward integration, horizontal integration, concentric diversification, conglomerate diversification, and horizontal diversification. Retrenchment strategies are adopted when the firm's survival is at stake.

Depending on the nature of the threat faced by the organization, retrenchment strategies may involve initiatives for asset reduction and cost reduction, and may even result in divestiture or liquidation.

Grand Strategies
Grand strategies, which are often called master or business strategies, are intended to provide basic direction for strategic actions. Thus, they are seen as the basic of coordinated and sustained efforts directed toward achieving long-term business objectives. Grand strategies indicate how long-range objectives will be achieved, thus, a grand strategy can be defined as a comprehensive general approach that guides major actions. Grand strategies fall under four categories.
1. Growth
2. Stability
3. Retrenchment
4. Portfolio restructuring

Growth strategies

Organizations usually seek growth in sales, profits, market share, or some other measure as a primary objective. The different grand strategies in this category are:

☐ Concentration

☐ Integration

☐ Diversification

☐ Mergers and acquisitions

☐ Joint Ventures

Concentration

The most common grand strategy is concentration on the current business. A concentration strategy is one in which an organization focuses on a single line of business The firm directs its resources to the profitable growth of a single product, in a single market, and with a single technology. Some of America's largest and most successful companies have traditionally adopted the concentration approach. For example, Mc Donald's concentrates on the fast food industry and Holiday Inns. Other examples include W.K. Kellogg and Gerber Foods, which are known for their product; Shaklee, which concentrates on geographic expansion; and Lincoln Electric, which bases its growth on technological advances.

Concentration strategies succeed for so many businesses – including the vast majority of smaller firms – because of the advantages of business – level specialization. By concentrating on one product, in one market, and with one technology, a firm can gain competitive advantages over its more diversified competitors in production skill, marketing know-how, customer sensitivity, and reputation in the marketplace. The reasons for selecting a concentration grand strategy are easy to understand. Concentration is typically lowest in risk and in additional resources required. It is also based on the known competencies of the firm. On the negative side, for most companies concentration tends to result in steady but slow increases in growth and profitability and a narrow range of investment options. Further, because of their narrow base of competition, concentrated firms are especially susceptible to performance variations resulting from industry trends.

Integration

Integration may take two forms: vertical and horizontal integration.

Vertical integration

Vertical integration strategy involves growth through acquisition of other organizations in a channel of distribution. When an organization purchases other companies that supply it, it engages in backward integration. The organization that purchases other firms that are closer to the end users of the product (such as wholesalers and retailers) engages in forward integration. Vertical integration is used to obtain greater control over a line of business and to increase profits through greater efficiency or better selling efforts.

Horizontal integration.

This strategy involves growth through the acquisition of competing firms in the same line of business. It is adopted in an effort to increase the size, sales, profits, and potential market share of an organization. This strategy is sometimes used by smaller firms in an industry dominated by one or a few large competitors, such as the soft drink and computer industries.

Diversification

This strategy involves growth through the acquisition of firms in other industries or lines of business as explained below.

1. Organizations in slow-growth industries may purchase firms in faster-growing industries to increase their overall growth rate.
2. Organizations with excess cash often find investment in another industry (particularly a fast-growing one) a profitable strategy.
3. Organizations may diversify in order to spread their risks across several industries.
4. The acquiring organization may have management talent, financial and technical resources, or marketing skills that it can apply to a weak firm in another industry in the hope of making it highly profitable.

Diversification may be of different types.

Related or concentric diversification When the acquired firm has production technology, products, channels of distribution, and /or markets similar to those of the firm purchasing it, the strategy is called concentric diversification.. This strategy is useful when the organization can acquire greater efficiency or market impact through the use of shared resources. A case of related or concentric diversification is the tie-up of McDonald with Coco-cola.

Unrelated or conglomerate diversification When the acquired firm is in a completely different line of business, the strategy is called unrelated or conglomerate diversification An example of unrelated conglomerate diversification is Marico's venture into cooling oil segment.

Mergers and acquisitions
In a merger, a company joins with another company to form a new organization.

Joint ventures
In a joint venture, an organization works with another company on a project too large to handle by itself, such as some elements of the space program. Similarly, organizations in different countries may work together to overcome trade barriers in the international market or to share resources more efficiently.

Stability Strategy

The organization that adopts a stability strategy focuses on its existing line or lines of business and attempts to maintain them through one of the following ways.

☐ Maintaining status quo-continue to do what it has been doing

☐ Sustainability - reinforcing the organization with more competencies to carry on things in a better or innovative way.

This is a useful strategy in several situations.

□ An organization that is large and dominates its market(s) may choose a stability strategy in an effort to avoid government controls or penalties for monopolizing the industry.
□ Another organization may find that further growth is too costly and could have detrimental effects on profitability.
□ Finally, an organization in a low- growth or no-growth industry that has no other viable options may be forced to select a stability strategy.

Retrenchment Strategies

When an organization's survival is threatened and it is not competing effectively, retrenchment strategies are often needed. The three basic types of retrenchment are

- Turnaround,
- Divestment, and
- Liquidation.

Turnaround strategy is used when an organization is performing poorly but has not yet reached a critical stage. It usually involves getting rid of unprofitable products, pruning the work force, trimming distribution outlets, and seeking other methods of making the organization more efficient. If the turnaround is successful, the organization may then focus on growth strategies.

Divestment strategy involves selling the business or setting it up as a separate corporation.

Divestment is used when a particular business doesn't fit well in the organization or consistently fails to reach the objectives set for it. Divestment can also be used to improve the financial position of the divesting organization.

Liquidation strategy involves closure of the business, which is no longer profitable. It may be technologically obsolete or out of times with market trends.

Stability strategy is adopted because

1. It is less risky, involves fewer changes and people feel comfortable with things as they are
2. The environment faced is relatively stable
3. Expansion may be perceived as being threatening
4. Consolidation is sought through stabilizing after a period of rapid expansion.
5. Expansion strategy is adopted because
6. It may become imperative when environment demands increase in pace of activity
7. Psychologically, strategists may feel more satisfied with the prospects of growth from expansion: chief executives may take pride in presiding over organizations perceived to be growth-oriented.
8. Increasing size may lead to more control over the market vis-à-vis competitors
9. Advantages from the experience curve and scale of operations may accrue Retrenchment strategy is adopted because:
10. The management no longer wishes to remain in business either partly or wholly due to continuous losses and inviability
11. The environment faced is threatening
12. Stability can be ensured by reallocation of resources from unprofitable to profitable businesses. Combination strategy is adopted because:
13. The organization is large and faces a complex environment

The organization is composed of different businesses, each of which lies in a different industry requires a different response.

The other Grand Strategies are:

Concentrated Growth: In this strategy, a firm directs it resources to the profitable growth of a dominant product, in a dominant market, with a dominant technology

Market Development: This strategy consists of marketing present products, often with only cosmetic modifications, to customers in related market areas by adding channels of distribution or by changing the content of advertising or promotion

Product Development: This strategy involves the substantial modification of existing products or the creation of new, but related, products that can be marketed to current customers through established channels

Diversification

Diversification is one of the grand strategies, which basically is a growth strategy. Basically diversification involves a substantial change the business definition in terms of product range, customers or alternative technologies. Diversification strategies have been adopted a number of business groups and individual companies both in the public and private sectors. In the 1960s and 1970s, the trend was to diversify so as not to be dependent on any single industry, but the 1980s saw a general reversal of that thinking. Overall, diversification strategies are becoming less popular as organizations are finding it more difficult to manage diverse business activities.
Diversification is now on the retreat. Michael Porter of the Harvard Business School says, “Management fount [it] couldn’t manage the beast.” Hence, businesses are selling or closing, less profitable divisions in order to focus on core business.

Why diversify?

Organizations diversify due to the following reasons. Some of the common reasons are as follows.

Synergy Synergy is cited in the most common cause of diversification. Synergy occurs when two or more activities produce their combined effect greater than the sum of its parts.

o Related diversification produces synergies rooted in production technology. With the additional technical facilities, a by-product or joint product may be produced.

o Both related and unrelated enable the companies to sell the products with same distribution network and advertisement facilities. The advertisement of one product spontaneously advertises other products with enhanced brand loyalty. This is marketing synergy.

o Synergetic effect can also be noticed in financial operations, when the positive cash flow of one business utilized in other business helps to generate more positive cash flows.

Spreading of risk. Diversification helps to avoid over dependence on one product/market. It spreads the risk associated with one product line or few products.

Better opportunities. With diversification, company can exploit the better opportunities in new product line. Every product has it own product life cycle. To gain better market share, company has to either differentiate or diversify.

Better utilization of Resources. With diversification, company can better use hitherto unexploited resources like finance, market channels, production facilities, technological capabilities, managerial knowledge, etc. The idle retained earnings could be utilized to produce new products. Their marketing may not be a problem because the same dealers will sell the new products. Same production facilities and technology can be utilized sometimes adding more capacity to it.

Competitive Strategy Diversification is a good competitive strategy. A company may enter new product lines of business to gain a competitive edge over the competitors or discourage them by entering before their arrival.

Market Dominance Diversification takes place to exploit tremendous market opportunities in home as well as in foreign countries with the objective of gaining market dominance. Finnish producer

Nokia leads the world in sales of cell-phone handsets. When the telecom industry crashed in 2000. Chairman Jorma Ollila invested heavily to turn Nokia into a major mobile phone software player. Under his leadership, the organization licensed its interface software to cell-phone competitors. It also invested heavily in billing and messaging service software. The result: millions of customers using Nokia and other software can now use their handsets to get e-mail, send photos, and download games.

Types of diversification

There are three general types of diversification strategies: concentric horizontal, and conglomerate.

Concentric Diversification

Under concentric diversification new products and services are added to the line with the condition that these products and services are related to their existing products/services carried by the organization. For concentric diversification it becomes necessary that the products or services that ate added must be within the framework of the know how and experience in technology, product line, distribution channels or customer base of the organization.

When the industry grows, the organization will get strength where concentric diversification becomes an important strategy for its survival and growth. A study of 460 corporations accounting for two/thirds of the US corporate industrial assets concluded, “that diversification that has led to relatively rapid rates of corporate growth has been to markets that are related to the entering organization’s original market. Concentric diversification has been successfully practiced by a large number of organizations in India. For instance “Amul” has diversified in chocolates, Ice creams, Butter, Ghee etc. On the same pattern, “Milk Food” has diversified.

Similarly, Honda has diversified into to Motor Cycles, Cars etc. In conclusion, it may be stated that concentric diversification has been quite successful in the past; it is expected to be successful in future also.

Horizontal Diversification

Where an organization adds unrelated products and services for existing customers, this is called horizontal diversification. The strategy is comparatively less risky because the customers are known. The organization is fully acquainted with their consumers' preference and their expectations about the quality and price of the goods and services.

Horizontal diversification can be accomplished by acquiring the shareholding of the competitor, by the purchase of the assets or by pooling of the interests of two organizations. .Horizontal diversification seeks to eliminate competitors.

In our country a T.V. manufacturing company Uptron has created a new division for spreading computer education in the country.It is a combination of hardware and software.

Conglomerate Diversification

Conglomerate diversification is a growth strategy in which new products and services are added which are significantly different from the organization's present product and services.

Conglomerate diversification is effected in the hope that the addition of new products and services may bring about some turnaround by way of conversion of losses into profits.

Mechanics for adopting conglomerate diversification has been summarized as follows:

1. Supporting some divisions with cash flow from other divisions during the period of development or temporary difficulty.
2. Using the profits of one division to cover the expenses of another division without payment of taxes from the first division.
3. Encouraging growth for its own sake or to satisfy the values and ambitions of management or the owners.
4. Taking advantage of unusually attractive growth opportunities.
5. Distributing risk by serving several different markets.
6. Improving overall profitability and flexibility of the organization by moving into industries that have better economic prospects than those of the acquiring organizations.

7. Gaining better access to capital markets and better stability or growth in the earnings.
8. Increasing the price of an origination's stock
9. Reaping the benefits of synergy. Synergy results from "a conglomerate merger when the combined organization is more profitable than the two organizations operating independently.

The scheme of Conglomerate Diversification should be implemented with caution and patience. It will create big business and will bring in turn, the problems of management associated with big businesses. Big businesses involve greater risk in the event of abnormal economic situation like recession or stagflation. In the light of the above, the success of the conglomerate diversification will depend on the following factors:
1. A clear definition of organizational objectives.
2. A determination of the organization's ability to diversify, which includes an analysis of its present operations (internal organizational analysis) and resources available for diversification.
3. Establishment of specific criteria for purchasing other organizations
4. A comprehensive search for organizations and their evaluation against the criteria.
Examples of companies that have diversified into related business concentric diversification

Advantages and disadvantages of diversification

A company planning to diversification should define its business, conduct SWOT analysis, Risk analysis, competition and Gap analysis and also assess the advantages and disadvantages of diversification.

Diversification strategy Advantages Disadvantages

- Horizontal integration Eliminates competitors.
- Access to new markets.
- Less flexibility
- Increasing risk and
- Commitment
- Concentric diversification Synergy by sharing skills and resources.
- Economics of scale and tax benefits.

- Reduction is flexibility.
- Additional investment.
- Untried markets and technologies.
- Conglomerate diversification
- Better management and high ROI.
- Reducing risk by spreading business.
- Lack of concentration.
- Risks of managing entirely new business.

Diversifications in India

Diversification strategy is widely adopted in India. Some examples are given here.

o A public sector giant, Oil India Ltd. (OIL), which had been operating in oil exploration and production, diversified into related areas, such as, gas cracking.

o The reputed multinational affiliate, ITC Ltd. has diversified into hotels, papers, agribusiness packaging, and priming from its original cigarette business in response to national objectives and priorities.

o Smaller companies, like, Blowplast in the molded luggage industry is in plastic seating systems, and marketing of branded toys.

o Unitech in civil engineering is into steel-making, exports, consumer electronics, power transmission, and real estate.

o The service sector has not been left untouched by the motivation to diversify.

o LIC in the insurance business is also in a related area of mutual funds.

o Banks, like SBI and Canara Bank too have moved from traditional banking to merchant banking and mutual funds.

o Peerless General Finance & Investment Co, one of the country's larger non-banking investment companies, has moved into related areas of finance, adopting a defensive diversification strategy to generate more resources to contain rising establishment costs.

Planned diversification

The one best way of diversifying an organization is to carry the work through systematic planning. Though many organizations have diversified without any systematic planning, the chances for a successful outcome are considerably increased when diversification decision is organic part of the comprehensive strategic planning.

In this process, it is preferable to constitute a tasks force, which is entrusted with the total work of diversification because it requires separate emphasis on some aspects at least for some period of time. When this task force is created, it can move in the direction of thinking about possible diversification. The work of the task force becomes easier if it has the full support of top management. The role of this task force may be to collect and analyze relevant information, which helps in arriving at diversification decision.

The basic problem in a diversification strategy is to identify the suitable industry sector, which meets basic criteria of diversification. The process provides the facility for assessing and measuring each business sector against a number of different criteria so that judgment can be reached on two separate factors.

o Attractiveness of the sector as an investment in its own right and
o The extent to which the qualities required for success in the sector match the own strengths of the organization.

There are basically three major measurements involved in this process.
o Measurements of industry attractiveness,
o Measurement of mesh, and Combination of attractiveness and mesh to arrive at some strategic alternatives.

When to diversify

Diversification merits strong consideration whenever a single-business company is faced with diminishing market opportunities and stagnating sales in its principal business.

o When it can expand into industries whose technologies and products complement its present business.
o When it can leverage existing competencies and capabilities by expanding into businesses where these same resource strengths are valuable competitive assets.
o When diversifying into closely related businesses open new avenues for reducing costs.
o When it has a powerful and well-known brand name that can be transferred to the products of other businesses.

When not diversify?

All the organizations cannot think of diversification as a strategy. Organizations do not diversify under the following conditions.
o When they are small and cannot afford to try
o When they have no power to sustain
o When they anticipate some pitfalls
o When they are the first to bell the cat in that area.
o When on checking they find their functional skills are insufficient to diversify
o When they don't want to gamble with public investments
o When they do not have attractive tax benefits after diversification.

Small Business Management and Entrepreneurship

Small business is one which independently owned and operated and which is not dominant in the field of operation (Small Business Administration 1998). According to CED (Committee for Economic Development), a small business is one which meets at least two of the following four criteria:

- Independent management (usually by firm's owners),
- Capitalization by an individual or a small group;
- Local operations (excepting markets);
- A small size relative to its largest competitors.

The small size and independent ownership are the key distinguishing features of small business.

Entrepreneurship, as a concept, has little to do with the size of an organization in which it is enacted. It refers, instead to value creations in an environment of risk, and may occur even in a large organization. Typically though entrepreneurship behavior is associated with the start-up phase of a small business or with significant strategic changes in an existing company.

Hartten (1997) contrasts entrepreneurship as "the process of identifying opportunities for which marketable needs exist, and assuming the risk of creating an organization to satisfy them", while small business management as "the on-going process of owning and operating an established business".

Some authors use entrepreneurship and small business management inter-changeably; sometime the boundary seems a fuzzy one. Though there is overlap between them, there are also enough differences to be studied separately. But you cannot study one without the other.

Tomas W. Zimmerer and Norman M. Scarborough describe the following to be vital for the management of small business:

Small Business Strategic Management Procedure:

- Use a short planning,
- Be informal,
- Encourage the participation of employees,
- Do not begin with setting objectives,
- Focus on strategic thinking.

Straegic Management Process:

- Develop clear Vision and translate it into a meaningful Mission Statement,
- Define the firm`s core competencies and the market segment,
- Assess the firm`s strengths and weaknesses,

- Investigate environment opportunities and threats,
- Identify key factors for success in the business,
- Analyse the competition,
- Create firm`s goals and objectives,
- Formulate strategic options,
- Translate strategic plan into action plans,
- Establish accurate controls.

In addition to the above, the management of small business should write down in clear terms the following:-

Target importance, cost leadership, product differentiation; focus areas, etc. to be a successful small business.

The most important strategic thing a small organization can do is prepare to do battle with the future, which entails five steps.

- Step 1: Anticipate both threats and windows of opportunities for the vision and mission of the business.
- Step 2: Decide how to respond to these emerging threats and opportunities.
- Step 3: Identify the source which those risks and opportunities will come from.
- Step 4: Figure out when the risks will hit or if the opportunity is truly valuable.
- Step 5: Execute actions to mitigate the threats or take advantage of the opportunities.

Strategic planning for a small business doesn't have to be as formal, as long, or as detailed as with a large company. The most important thing to do is strike up a dialogue with your customers, employees, vendors, investors, and does your homework about your competitors. It helps to talk about your strategy with a partner, advisor, or trusted consultant to bring some clarity and focus to your mind around the strategic issues that could affect your business in the future. The biggest disservice a small business leader can do for an organization is be unprepared or surprised by unfolding events. Even if you simply think things through in your mind and then briefly share your strategic ideas or decisions with your employees, you will be ahead of the curve and helping people to understand how they can connect with your strategy.

Strategic management is typically associated with large, successful Fortune 500 corporations that can afford expensive strategic consultants. Seldom do people associate strategic management with small businesses. It can, however, be an excellent tool to improve the efficiency and profitability of a small business. Because small business owners rarely have the luxury of hiring expensive consultants, they must familiarize themselves with the basics of strategic management.

Selecting a Strategy

In strategic management, there are three generic strategies employed by all businesses. These strategies are cost leadership (offering the lowest prices), differentiation (offering a non-price advantage over the competition), and segmentation (targeting a specific niche). For a small business, it can be difficult to achieve the economy of scale required to be a cost leader. It is much more realistic for a small business to differentiate itself with a non-price advantage, and easier yet for it to target a small niche that it can tailor its services to.

Setting Goals

Establishing goals allows a small business to measure its success. Goals should be developed according to the SMART framework, meaning they should be specific, measurable, attainable, relevant and timely. The most important element to keep in mind for small businesses is that the goals should be attainable. Because small businesses do not have the same scale or scope as a large corporation, it is important to keep goals reasonable. For instance, the goal of being the most profitable company in the world is not attainable for a small business, but being one of the top small businesses in the state is.

Measuring Goals

An important component of strategic management for small businesses is measuring goals. Because small businesses have limited resources, it is important that these resources be used efficiently. A business will want, therefore, to ensure that its use of resources is yielding tangible results. An effective method of measuring goals is through a gap analysis. This takes the firm's goals and measures them against the firm's reality to see what gap exists.

Anticipating Changes

Large corporations often are able to adapt easily to changes in the marketplace because they have large cash reserves and they are often highly diversified. Small businesses do not have this protection. It is important then, for small businesses to anticipate market changes. Scenario planning is a strategic management tool that makes this possible. In scenario planning, multiple future possibilities are analyzed. As a result, small business owners are less likely to be caught off-guard by changes.

Strategic Management Tasks for the Small Business Owner

In order to successfully run a small business, its need to have a business plan in place and a business strategy to make sure the plan goes through. Getting past the difficult steps to get that strategy set up is what actually makes the real difference between dream being just an ordinary dream and turning that dream into reality.

Once an effective business plan is created, it’s creating a mission and a vision for company. From here on, must create all the necessary details on how to implement the best strategies to conquer the mission and accomplish the vision. This strategic plan or the marketing plan will serve as the game plan and will help to get started.

From how to run the business to how best to satisfy the customers to how to establish a strong competitive position in the market, the game plan will be the answer to a lot of unsolved questions.

The Five Strategic Management Tasks to Help to Get Started as a Small Business Owner

Here are five strategic management tasks to help individual get started as a small business owner:

- **Start by defining your business-** Ask yourself, what is it that you want to do? What are you passionate about? Where do you want to be a few years down the line? These questions make up your vision and then of course your mission. The advantage about asking yourself these questions is that it will keep you on track. Every potential customer wants to deal with a business owner who's confident and knows what he or she wants. Once you set up goals for yourself, you will be a lot more focused and this will automatically be reflected in your work.
- **Set realistic goals-** The purpose of setting goals for yourself is to create a benchmark so that you can evaluate your performance and see if you are meeting your targets. Your goals should be both challenging as well as achievable. In this way, you'll be forced to exert yourself in order to be more creative, focused and innovative. When creating goals, you need to be focused on both strategic goals and financial goals.
- **Hone your strategies to meet your goals-** Most people spend the most amount of time struggling to narrow down their objectives, but are more often than not getting bogged down by the weight of those goals. It's like banging your head against a wall; but once you manage to chip a piece of the wall off, it gets easier to break it down. Though this step is one of the hardest, it also happens to be one of the most inspiring steps. After all, this is how you are going to run your business - right from how you're going to make everything happen to the action steps, your goals and objectives will help you get anywhere you want to. This is where the real entrepreneur in you will actually come out.
- **Implementing your strategies-** Take all your goals and objectives and work out ways to achieve them and make sure you do all of this. Make sure you have the right resources to carry out your plan.

- **Evaluate the results and take corrective measures-** Since goals can keep changing, creating strategies and evaluating them can also be a continuous process. It is very important to monitor your progress.

These steps can help you run your business smoothly. So, once you have created these goals for yourself and set up the necessary strategies to go about achieving these goals, the rest will all fall into place, sooner or later.

Strategic issues in Not-for-Profit (NFP) organizations

Not-for-Profit (NFP): An organization that provides some service or good with no intention of earning a profit. NFP includes Private nonprofit corporations (such as hospitals, institutes, private colleges, and organized charities) as well as Public governmental units/agencies (such as welfare departments, prisons and state universities).

Types of Not-for-Profit Organizations

Importance of Revenue Source: NFPs are dependent on dues, assessments or donations for their revenue sources. In NFP organizations there is likely to be a very different sort of relationship between the organisations providing and the person receiving the service. Because the recipient of the service typically does not pay the entire cost of the service, outside sponsors are required.

Pattern of Influence on Strategic Decision Making: Pattern of influence is derived from its source of revenues. Those who fund the NFP are likely to have significant influence on its operations.

Usefulness of Strategic Management and Techniques: some strategic management concepts can be equally applied to business and not for profit organizations whereas others cannot. The concept of competitive advantage is less useful to the typical not-for-profit organizations than the related concept of Institutional advantage. A NFP organisation is said to have institutional advantage when it performs its tasks more effectively than other comparable organizations.

Portfolio analysis may be more difficult to apply to NFPs. Situation (SWOT) analysis; mission statements, stakeholder analysis, and corporate governance are all relevant to the strategic assessment of NFPs as they are to a profit making organizations

Strategic management is difficult to apply where the output of an NFP is difficult to measure. Thus it is very likely that most of the NFPs have not used strategic management because its concepts, techniques and prescription does not lend themselves to situations where sponsors, rather than the market place determine the value. However the situation is changing nowadays.

Impact of Constraints on strategic management: Several characteristics peculiar to the not for profit organisation constrain its behavior and affects it strategic management. The constraints are as follows:

- Service is often intangible/hard to measure
- Client influence may be weak
- Strong employee commitments to professions
- Resource contributors intrude on internal management
- Restraints on use of rewards and punishments

Impact on Strategy Formulation:

- Goal conflicts with rational planning: because NFPs typically lacks a single clear cut performance criterion, divergent goals and objectives are likely, especially with multiple sponsors.
- An integrated planning process tends to shift from results to resources: because NFPs tend to provide services that are hard to measure planning becomes more concerned with resource inputs, which can be easily measured than with service which cannot.
- Ambiguous objectives create opportunities for internal politics and goal displacement: the combination of vague objectives and heavy concerns with resources allows managers a considerable scope in their activities. Such attitude created opportunities for politics.
- Professionalization simplifies detailed planning but adds rigidity: In NFPs professional values and traditions can prevent the organizations from changing its conventional behviour patterns to fit new service mission tuned to changing social needs. Goals of the professionals and their representative bodies may not align with organizational goals

Impact on Implementation

Decentralization is complicated: the difficulty of setting objectives for an intangible service complicates the decision making authority.

Increased requirement for an environmental buffer role: because of the heavy dependence on outside sponsors a special need arises for people in buffer roles to relate to both inside and outside organizations. The job of a “dean for external affairs” for example consists primarily of working with the school alumnae and raising funds.

Job enlargement and executive development can be restrained by professionalism: in organisations that employ large number of professionals, managers must design jobs that appeal to prevailing professional norms.

Impact on Evaluation & Control

Rewards & penalties have little or no relation to performance: when results are vague and the judgement of success is subjective, predictable and impersonal feedback cannot be established.

Inputs rather than outputs are heavily controlled: because its inputs can be mneasured much more easily than outputs, the not for profit organisation tends to focus more on the resources going into performance than on the performance itself.

Popular Not for Profit Strategies

Strategic piggybacking: Strategic piggybacking refers to he development of a new activity for the not-for-profit organization that would generate funds needed to make up the difference between revenues and expenses. Its purpose is to help subsidize the primary service programs. It appears to be a form of concentric diversification but it is engaged in only for its money generating value

Mergers: Merging with an organization with a similar mission can help to reduce administration costs.

Strategic alliances: Developing cooperative ties with other NFPs. This will enhance their capacity to serve clients or to acquire resources while enabling them to keep their identity.

POSSIBLE QUESTIONS

PART-A

Multiple Choice Questions

Online Examination

Part - B

1. What is strategy formulation?
2. List the factors of strategy formulation process.
3. Mention the three levels of strategy.
4. What are grand strategies?
5. What is cost leadership strategy?
6. What is differentiation strategy?
7. What is focus strategy?
8. What is concentration strategy?
9. What is Vertical integration?
10. What is horizontal integration?
11. Define diversification.
12. What is Unrelated or conglomerate diversification
13. What is Related or concentric diversification?
14. What are Mergers and acquisitions?
15. Define joint venture?
16. What is Stability Strategy?
17. What are Retrenchment Strategies?
18. What is Turnaround strategy?
19. What is divestment strategy?
20. What is Liquidation strategy?
21. What is Concentrated Growth?
22. What is Market Development?
23. What is Product Development?

24. What is Concentric Diversification?
25. What is Horizontal Diversification?
26. What is Conglomerate Diversification?
27. List the Small Business Strategic Management Procedure.
28. What are barriers to Entry?
29. What is small business organization?
30. What is non-profit organization?
31. What is multiproduct organization?
32. Distinguish between hostile takeover and friendly takeover?
33. What is Horizontal Expansion?
34. Define strategic Group?
35. What is backward integration?
36. Define strategic outsourcing.
37. What do you mean by hypercompetitive?

PART C

1. Define strategy. Why are generic strategies important?
2. Describe the different stages in the strategic formulation process.
3. Explain the grand strategies.
4. Explain the generic strategies?
5. Explain the growth strategies?
6. Explain the vertical and horizontal integration.
7. Explain the different types of diversification.
8. Explain the Retrenchment Strategies.
9. Discuss the need to adopt the Stability strategy.
10. Discuss the three general types of diversification strategies.
11. Discuss the advantages and disadvantages of diversification.
12. Explain the conditions that organizations do not diversify.
13. Explain the conditions that organizations go for diversification.

14. Describe a non-profit organization and examine how strategy formulation plays a key factor in its success.
15. Write a detailed note on strategic management of small organizations.
16. Why do organisations go for diversification? Explain concentric diversification.
17. Discuss the most common market entry strategy for global expansion.
18. Examine the strategy planning for large multi product and multiple market organizations.
19. Define strategy. Why are generic strategies important?
20. Discuss the grand strategy for a company which deals in infrastructure Industry in India.
21. Discuss strategic management for small organizations and non-profit organizations.
22. Write a detailed note on strategic management of large organizations.

PART-D

Key moves: GE began looking at sustainability as part of a demographic trend, realizing that scarcity would increase with population growth. Energy and water use, waste, carbon emissions — all would decline among the most efficient and sustainable companies. GE saw a profitable business opportunity in helping companies along this sustainable path. So it set up its ecomagination unit to offer environmental solutions.

GE also gambled that carbon would eventually be a cost, following the implementation of previous regulatory regimes such as limiting acid rain. Although the precise way carbon would be regulated was unknown, as it still is, the company had little doubt that regulation would come to pass. Rather than wait, GE joined a climate coalition with nongovernmental organizations to press for a cap-and-trade system in order to build certainty into the future.

Within the company, GE began engaging employees to see where energy savings could be found. That might include turning off the lights when a factory was idle or even installing a switch so that lights could be turned off. Ecomagination sold solutions within GE, whether the project involved installing LED lights on a factory floor, recycling water at a nuclear facility or offering combined heat and power generation units at a plant in Australia. Within GE, managers began to be measured on how much energy savings they had achieved.

Impact: The company so far has saved $100 million from these measures and cut its greenhouse gas intensity — a measure of emissions against output — by 41%, according to the company's sustainability report. The work inside GE became a proof of concept to external customers grappling with similar issues. So far GE has invested $4 billion in this effort, much of it in research and development. But it reaped sales of $17 billion in 2008, up 21% from a year earlier, and is striving for $55 billion in sales in 2016.

Question
1. How do you create a new business in sustainability and move into the major leagues?

UNIT-IV- STRATEGY IMPLEMENTATION

SYLLABUS

Unit IV Strategy Implementation: Competitive cost dynamics – Experience curve – BCG approach – Cash flow implication – IA-BS Matrix – A.D. Little Life cycle approach to strategic planning – Business portfolio balancing – Assessment of economic contribution of strategy – Strategic fund programming

INTRODUCTION:

Strategy implementation is the translation of chosen strategy into organizational action so as to achieve strategic goals and objectives. Strategy implementation is also defined as the manner in which an organization should develop, utilize, and amalgamate organizational structure, control systems, and culture to follow strategies that lead to competitive advantage and a better performance. Organizational structure allocates special value developing tasks and roles to the employees and states how these tasks and roles can be correlated so as maximize efficiency, quality, and customer satisfaction-the pillars of competitive advantage. But, organizational structure is not sufficient in itself to motivate the employees.

An organizational control system is also required. This control system equips managers with motivational incentives for employees as well as feedback on employees and organizational performance. Organizational culture refers to the specialized collection of values, attitudes, norms and beliefs shared by organizational members and groups.

Following are the main steps in implementing a strategy:

- Developing an organization having potential of carrying out strategy successfully
- Disbursement of abundant resources to strategy essential activities
- Creating strategy encouraging polices
- Employing best policies and programs for constant improvement
- Linking reward structure to accomplishment of results
- Making use of strategic leadership

Excellently formulated strategies will fail if they are not properly implemented. Also, it is essential to note that strategy implementation is not possible unless there is stability between strategy and each organizational dimension such as organizational structure, reward structure, resource-allocation process, etc.

Strategy implementation poses a threat to many managers and employees in an organization. New power relationships are predicted and achieved. New groups (formal as well as informal) are formed whose values, attitudes, beliefs and concerns may not be known. With the change in power and status roles, the managers and employees may employ confrontation behaviour.

Cost Dynamics

A firm must consider how the absolute and relative cost of value activities will change over time independent of its strategy. Porter terms this cost dynamics.

The most common sources of cost dynamics include: industry real growth, differential scale sensitivity, different learning rates, differential technological change, relative inflation of costs, aging (older offshore drilling rigs require more maintenance and insurance), market adjustment. Cost dynamics can lead to significant changes in industry structure and relative cost position.

Gaining Cost Advantage

A firm has a cost advantage if its cumulative cost of performing all value activities is lower than competitors' costs. A firm's relative cost position is a function of:

the composition if its value chain versus competitors'

its relative position vis-a-vis the cost drives of each activity.

There are two major ways to achieve a cost advantage:

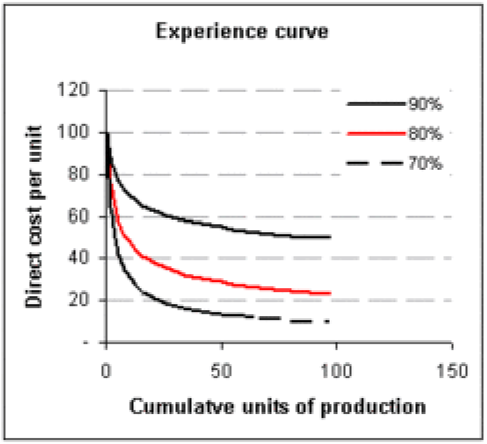
Control cost drivers. A firm can gain and advantage with respect to the cost drivers of value activities representing a significant proportion of total costs.

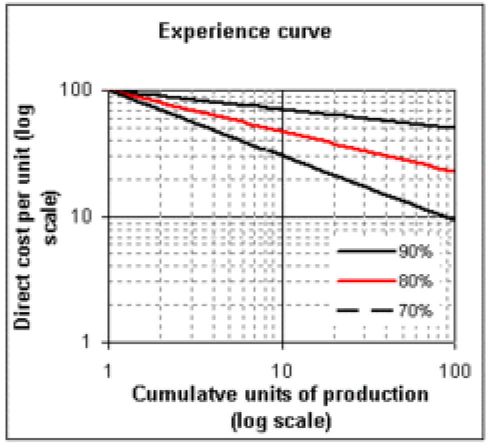
Reconfigure the value chain. A firm can adopt a different and more efficient way to design, produce, distribute, or market the product.

The Experience Curve

The experience curve effect is broader in scope than the learning curve effect encompassing far more than just labor time. It states that the more often a task is performed, the lower will be the cost of doing it. The task can be the production of any good or service. Each time cumulative volume doubles, value added costs (including administration, marketing, distribution, and manufacturing) fall by a constant and predictable percentage.

In the late 1960s Bruce Henderson of the Boston Consulting Group (BCG) began to emphasize the implications of the experience curve for strategy. Research by BCG in the 1970s observed experience curve effects for various industries that ranged from 10 to 25 percent.





Experience curve

These effects are often expressed graphically. The curve is plotted with cumulative units produced on the horizontal axis and unit cost on the vertical axis. A curve that depicts a 15% cost reduction for every doubling of output is called an “85% experience curve”, indicating that unit costs drop to 85% of their original level.

Mathematically the experience curve is described by a power law function sometimes referred to as **Henderson's Law**:

- $C_n = C_1 n^{-a}$

where

- C_1 is the cost of the first unit of production
- C_n is the cost of the *n*th unit of production
- n is the cumulative volume of production
- a is the elasticity of cost with regard to output

Reasons for the effect

Examples

NASA quotes the following experience curves

- Aerospace 85%
- Shipbuilding 80-85%
- Complex machine tools for new models 75-85%
- Repetitive electronics manufacturing 90-95%

- Repetitive machining or punch-press operations 90-95%
- Repetitive electrical operations 75-85%
- Repetitive welding operations 90%
- Raw materials 93-96%
- Purchased Parts 85-88%

The primary reason for why experience and learning curve effects apply, of course, is the complex processes of learning involved. As discussed in the main article, learning generally begins with making successively larger finds and then successively smaller ones. The equations for these effects come from the usefulness of mathematical models for certain somewhat predictable aspects of those generally non-deterministic processes. They include:

- **Labour efficiency** - Workers become physically more dexterous. They become mentally more confident and spend less time hesitating, learning, experimenting, or making mistakes. Over time they learn short-cuts and improvements. This applies to all employees and managers, not just those directly involved in production.
- **Standardization, specialization, and methods improvements** - As processes, parts, and products become more standardized, efficiency tends to increase. When employees specialize in a limited set of tasks, they gain more experience with these tasks and operate at a faster rate.
- **Technology-Driven Learning** - Automated production technology and information technology can introduce efficiencies as they are implemented and people learn how to use them efficiently and effectively.
- **Better use of equipment** - as total production has increased, manufacturing equipment will have been more fully exploited, lowering fully accounted unit costs. In addition, purchase of more productive equipment can be justifiable.
- **Changes in the resource mix** - As a company acquires experience, it can alter its mix of inputs and thereby become more efficient.
- **Product redesign** - As the manufacturers and consumers have more experience with the product, they can usually find improvements. This filters through to the manufacturing process. A good example of this is Cadillac's testing of various "bells and whistles" specialty accessories. The ones that did not break became mass produced in other General Motors

products; the ones that didn't stand the test of user "beatings" were discontinued, saving the car company money. As General Motors produced more cars, they learned how to best produce products that work for the least money.

- **Network-building and use-cost reductions** (network effects) - As a product enters more widespread use, the consumer uses it more efficiently because they're familiar with it. One fax machine in the world can do nothing, but if everyone has one, they build an increasingly efficient network of communications. Another example is email accounts; the more there are, the more efficient the network is, the lower everyone's cost per utility of using it.
- **Shared experience effects** - Experience curve effects are reinforced when two or more products share a common activity or resource. Any efficiency learned from one product can be applied to the other products. (This is related to the principle of least astonishment).

Experience Curve Discontinuities

The experience curve effect can on occasion come to an abrupt stop. Graphically, the curve is truncated. Existing processes become obsolete and the firm must upgrade to remain competitive. The upgrade will mean the old experience curve will be replaced by a new one. This occurs when:

- Competitors introduce new products or processes that you must respond to
- Key suppliers have much bigger customers that determine the price of products and services, and that becomes the main cost driver for the product
- Technological change requires that you or your suppliers change processes
- The experience curve strategies must be re-evaluated because
- they are leading to price wars
- they are not producing a marketing mix that the market values

BCG MATRIX

Boston Consulting Group (BCG) Matrix is a four celled matrix (a 2 * 2 matrix) developed by BCG, USA. It is the most renowned corporate portfolio analysis tool. It provides a graphic representation for an organization to examine different businesses in it’s portfolio on the basis of their related market share and industry growth rates. It is a two dimensional analysis on management of SBU’s (Strategic Business Units). In other words, it is a comparative analysis of business potential and the evaluation of environment.

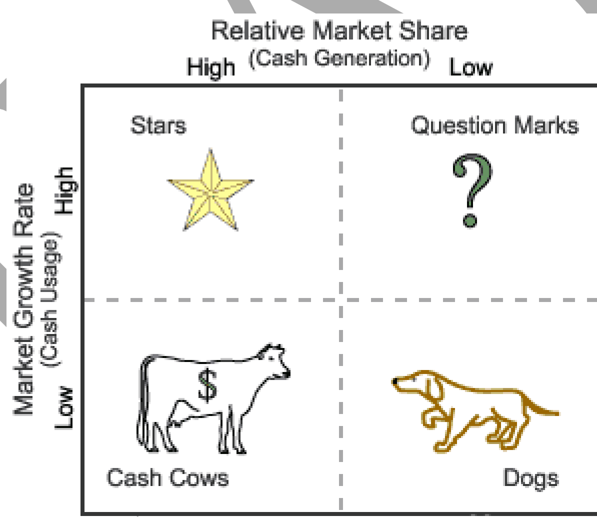
According to this matrix, business could be classified as high or low according to their industry growth rate and relative market share.

Relative Market Share = SBU Sales this year leading competitors sales this year. **Market Growth Rate** = Industry sales this year - Industry Sales last year.

The analysis requires that both measures be calculated for each SBU. The dimension of business strength, relative market share, will measure comparative advantage indicated by market dominance. The key theory underlying this is existence of an experience curve and that market share is achieved due to overall cost leadership.

BCG matrix has four cells, with the horizontal axis representing relative market share and the vertical axis denoting market growth rate. The mid-point of relative market share is set at 1.0. if all the SBU's are in same industry, the average growth rate of the industry is used. While, if all the SBU's are located in different industries, then the mid-point is set at the growth rate for the economy.

Resources are allocated to the business units according to their situation on the grid. The four cells of this matrix have been called as stars, cash cows, question marks and dogs. Each of these cells represents a particular type of business.



10 x **1 x** **0.1 x**

Figure: BCG Matrix

1. **Stars-** Stars represent business units having large market share in a fast growing industry. They may generate cash but because of fast growing market, stars require huge investments

to maintain their lead. Net cash flow is usually modest. SBU's located in this cell are attractive as they are located in a robust industry and these business units are highly competitive in the industry. If successful, a star will become a cash cow when the industry matures.

2. **Cash Cows-** Cash Cows represents business units having a large market share in a mature, slow growing industry. Cash cows require little investment and generate cash that can be utilized for investment in other business units. These SBU's are the corporation's key source of cash, and are specifically the core business. They are the base of an organization. These businesses usually follow stability strategies. When cash cows loose their appeal and move towards deterioration, then a retrenchment policy may be pursued.
3. **Question Marks-** Question marks represent business units having low relative market share and located in a high growth industry. They require huge amount of cash to maintain or gain market share. They require attention to determine if the venture can be viable. Question marks are generally new goods and services which have a good commercial prospective. There is no specific strategy which can be adopted. If the firm thinks it has dominant market share, then it can adopt expansion strategy, else retrenchment strategy can be adopted. Most businesses start as question marks as the company tries to enter a high growth market in which there is already a market-share. If ignored, then question marks may become dogs, while if huge investment is made, then they have potential of becoming stars.
4. **Dogs-** Dogs represent businesses having weak market shares in low-growth markets. They neither generate cash nor require huge amount of cash. Due to low market share, these business units face cost disadvantages. Generally retrenchment strategies are adopted because these firms can gain market share only at the expense of competitor's/rival firms. These business firms have weak market share because of high costs, poor quality, ineffective marketing, etc. Unless a dog has some other strategic aim, it should be liquidated if there is fewer prospects for it to gain market share. Number of dogs should be avoided and minimized in an organization.

Limitations of BCG Matrix

The BCG Matrix produces a framework for allocating resources among different business units and makes it possible to compare many business units at a glance. But BCG Matrix is not free from limitations, such as-

1. BCG matrix classifies businesses as low and high, but generally businesses can be medium also. Thus, the true nature of business may not be reflected.
2. Market is not clearly defined in this model.
3. High market share does not always leads to high profits. There are high costs also involved with high market share.
4. Growth rate and relative market share are not the only indicators of profitability. This model ignores and overlooks other indicators of profitability.
5. At times, dogs may help other businesses in gaining competitive advantage. They can earn even more than cash cows sometimes.
6. This four-celled approach is considered as to be too simplistic.

THE BUSINESS STRENGTH-INDUSTRY ATTRACTIVENESS MATRIX

- To eliminate some of the limitations of the BCG growth/share matrix, a more complete matrix analysis was developed by the General Electric planners and mostly used McKinsey & Co - a management consulting firm.
- The primary improvement of BS/IA matrix is that it allows for the analysis of multiple variables (rather than only market share and growth) depending on the context.
- And, rather than focusing on cash flow , it concerns potential future return on investment.

Business Strength and Industry Attractiveness Dimensions

- **Horizontal axis – market attractiveness;**
  - Size
  - Growth
  - Customer satisfaction levels
  - Competition; quantity, types, effectiveness, commitment
  - Price levels

- Profitability
- Technology
- Government regulations
- Sensitivity to economic trends

- **Vertical axis – business strength;**
  - Size
  - Growth
  - Share of segment
  - Customer loyalty
  - Margins
  - Distribution
  - Technology skills
  - Patents
  - Marketing
  - Flexibility
  - Organization

Weight, Rating, Value?

In BS/IA matrix, each of the key variables used must be given a weight, rating and value.

- The weight will be based on its importance to the company, relative to other selected variables. The total point must equal 10. the weights can be determined by management or, when possible, by customer surveys.
- A rating (or grade) will be given for each business strength variable. E.g. a strength would receive a high score, a weakness would receive a low score.
- The rating for each variable is then multiplied by its weight to obtain the variable's value.
- The values are individual summed for total value for business strength for that particular business.

- For industry attractiveness, influencing variables will be given a weight based on their importance to the business, and a rating based on favorable or unfavorable conditions in the environment (opportunity or threat?).
- The total value for industry attractiveness is calculated in the same manner as for business strength.
- The two scores for each business unit are then used to position the business on the matrix.

Business Portfolio Balancing

Portfolio refers to the total set of programs, stand-alone projects and other change initiatives undertaken by an organisation.

A portfolio refers to a collection of investment tools such as stocks, shares, mutual funds, bonds, cash and so on depending on the investor's income, budget and convenient time frame.

The art of selecting the right investment policy for the individuals in terms of minimum risk and maximum return is called as portfolio management.

Portfolio management is the art and science of making decisions about investment mix and policy, matching investments to objectives, asset allocation for individuals and institutions, and balancing risk against performance. Portfolio management is all about determining strengths, weaknesses, opportunities and threats in the choice of debt vs. equity, domestic vs. international, growth vs. safety, and much other trade-offs encountered in the attempt to maximize return at a given appetite for risk.

The reason for creating a portfolio is to provide an overall business view and control over all these programs and projects at a high level in the organisation.

Portfolio management is aligned to the organisation's budgetary and decision-making processes and is the link between the corporate and business strategy and the programs and projects that will deliver it. Portfolios have strategic corporate deliverables and are ongoing.

- The overall corporate strategy is implemented through the business strategy; the portfolio is aligned with the business strategy.
- The business strategy is then implemented through the programs and projects that make up the portfolio.

Portfolio management ensures that all projects and programs stay aligned with the business strategy and deliver business benefits.

By treating the totality of the organisation's programs and projects as a single portfolio, they can be ranked on their alignment with corporate strategy and their potential business benefits.

The goal is to ensure that the portfolio delivers in line with the business strategy of the enterprise.

Portfolio Management key objectives:

1. To maximise the value of the portfolio by achieving the best possible return on investment
2. To align the portfolio with the organisational strategy
3. To balance the portfolio by making the best possible use of the organization's human and financial resources

The Key Elements of Portfolio Management

Asset Allocation: The key to effective portfolio management is the long-term mix of assets. Asset allocation is based on the understanding that different types of assets do not move in concert, and some are more volatile than others. Asset allocation seeks to optimize the risk/return profile of an investor by investing in a mix of assets that have low correlation to each other. Investors with a more aggressive profile can weight their portfolio toward more volatile investments. Investors with a more conservative profile can weight their portfolio toward more stable investments.

Diversification: The only certainty in investing is it is impossible to consistently predict the winners and losers, so the prudent approach is to create a basket of investments that provide broad exposure within an asset class. Diversification is the spreading of risk and reward within an asset class. Because it is difficult to know which particular subset of an asset class or sector is likely to outperform another, diversification seeks to capture the returns of all of the sectors over time but with less volatility at any one time. Proper diversification takes place across different classes of securities, sectors of the economy and geographical regions.

Rebalancing: This is a method used to return a portfolio to its original target allocation at annual intervals. It is important for retaining the asset mix that best reflects an investor's risk/return profile. Otherwise, the movements of the markets could expose the portfolio to greater risk or reduced return opportunities. For example, a portfolio that starts out with a 70% equity and 30% fixed-income allocation could, through an extended market rally, shift to an 80/20 allocation that exposes the portfolio to more risk than the investor can tolerate. Rebalancing almost always entails the sale of high-priced/low-value securities and the redeployment of the proceeds into low-priced/high-value or out-of-favor securities. The annual iteration of rebalancing enables investors to capture gains and expand the opportunity for growth in high potential sectors while keeping the portfolio aligned with the investor's risk/return profile.

OBJECTIVES OF PORTFOLIO MANAGEMENT

When a portfolio is built, following objectives are to be kept in mind by the portfolio manager based on an individual's expectation. The choice of one or more of these depends on the investor's personal preference.

- Capital Growth
- Security of Principal Amount Invested
- Liquidity
- Marketability of Securities Invested in
- Diversification of Risk
- Consistent Returns
- Tax Planning

Investors hire portfolio managers and avail professional services for the management of portfolio by as paying a pre-decided fee for these services. Let us understanding who is a portfolio manager and tasks involved in the management of portfolio.

PROCESS IN PORTFOLIO MANAGEMENT

Portfolio management process is not a one-time activity. The portfolio manager manages the portfolio on a regular basis and keeps his client updated with the changes. The tasks involved in it are stated below:

- Understanding the client's investment objectives and availability of funds
- Matching investment to these objectives
- Recommending an investment policy
- Balancing risk and studying the portfolio performance from time to time
- Taking decision of the investment strategy based on discussion with the client
- Changing asset allocation from time to time-based on portfolio performance

WHY IS PORTFOLIO MANAGEMENT IMPORTANT?

It is important due to the following reasons:

PM is a perfect way to select the "Best Investment Strategy" based on age, income, risk taking the capacity of the individual and investment budget.

It helps to keep a gauge on the risk taken as the process of PM keeps "Risk Minimization" as the focus.

"Customization" is possible because individual's needs and choices are kept in mind i.e. when the person needs the return, how much return expectation a person has and how much investment period an individual selects.

Types of Portfolio Management

Portfolio Management is further of the following types:

Active Portfolio Management: As the name suggests, in an active portfolio management service, the portfolio managers are actively involved in buying and selling of securities to ensure maximum profits to individuals.

Passive Portfolio Management: In a passive portfolio management, the portfolio manager deals with a fixed portfolio designed to match the current market scenario.

Discretionary Portfolio management services: In Discretionary portfolio management services, an individual authorizes a portfolio manager to take care of his financial needs on his behalf. The individual issues money to the portfolio manager who in turn takes care of all his investment needs, paper work, documentation, filing and so on. In discretionary portfolio management, the portfolio manager has full rights to take decisions on his client's behalf.

Non-Discretionary Portfolio management services: In non discretionary portfolio management services, the portfolio manager can merely advise the client what is good and bad for him but the client reserves full right to take his own decisions

.A.D Little life cycle approach

The Arthur D. Little's (ADL) strategic planning system revolves around three concepts – market segmentation, product life cycle, and competitive position.

The ADL system involves six basic steps:

1**. Definition of SBU's**: The Company has to be divided into different strategic business units.

2. **Classifying SBU's** the next step is to classify the SBU's into 24 – cell matrix with two dimensions – maturity, and competitive position.

a) Maturity of the industry is measured by the maturity of the need fulfilled by the set of products serving that need.

i) Embryonic industries: Experience rapid sales growth, frequent changes in technology, and fragmented shifting market shares, these industries typically are nor profitable, and require large investments.

ii) Growth industries industries: Characterised by rapid expansion of sales as the market develops. The entry into these industries is more difficult than in embryonic industries, and the earnings are generally low.

iii) Mature industries: Competitors, technology, customers and markets are all clearly defined, market shares are stable, and growth rates are around the growth of the economy. Businesses in mature industries generate a lot of cash for the company.

iv) Aging industries: The demand for the product is falling, the growth potential is limited, and companies are exiting the market.

b**) Competitive position** of the SBU is a qualitative assessment of the SBU's standing in its market relative to its competitors, based on a variety of factors, including market shares over time, relative breadth of product line, degree of customer concentration, technological strength compared to competitors, value of brand name or corporate name in the market, strength in the channels of distribution, degree of integration, quality of production facilities and nearness to capacity, and cost of production compared to competitors.

i) Dominant SBUs control the behavior or strategies of the competitors in the market.

ii) Strong SBU's can take an independent stance or action, without endangering their long-term position.

iii) Favorable SBUs possess exploitable strengths in an industry niche that is comfortable.

iv) Tenable SBUs have sufficient strengths to warrant continuation of the business.

v) Weak SBUs suffer from consistently unsatisfactory performance, but has strengths that might lead to improvement.

ADL MATRIX

How industry position influences your strategy?

Part of thinking about strategy involves thinking about the state of your industry; understanding how your organization fits into it; and, from this, figuring out your best way forward.

While there are many tools that help you do this, you can get particularly useful insights with the Arthur D Little (ADL) Matrix. Developed in the late 1970s by the highly respected Arthur D Little consulting company, it helps you think about strategy based on:

- Competitive Position : How strong is your strategic position?
- Industry Maturity :At what stage of its lifecycle is the industry?

Using the ADL Matrix

If your business unit has a strong market presence and a newly emerging product line, youï¿½ll likely want to aggressively push its position and capture as much market share as you can. But this strategy does not apply so well to business lines with dominant competitive positions in declining markets. In this instance, youï¿½re better off putting your energy into new, growing markets and simply maintaining your current market position in the declining industry.

The ADL Matrix addresses these unique needs by recommending general strategies for different combinations of competitive position and industry maturity.

The ADL matrix by Arthur D. Little is a portfolio management matrix which helps managers decide their SBUs strategic position depending upon 2 dimensions-

1. SBU's life cycle and
2. Competitive position

Each of these dimensions can be further split up into the following categories to better analyze a firm and accordingly determine the future strategic actions-

Life cycle stages can be

1. ***Embryonic***
2. ***Growth***
3. ***Maturity***
4. ***Ageing***

Competitive position can also be either of the following

1. Dominant

The position of a company falls into this category if it is a clear market leader or has a monopoly position. Example , Intel in microprocessors.

2. Strong

In this case, the company might not be a monopoly but definitely has a strong presence and loyal customers.

3. Favorable

Companies with favorable competitive position usually operate in fragmented markets and no single one controls all market share.

4. Tenable

Here each company caters to a niche segment defined by a product variety or segmented demographically.

5. Weak

In this scenario, the company financials are too weak to gain a strong hold in the market and is expected to die out within a short span of time.

The resulting ADL Matrix looks like this, with the various strategies prescribed for each of the 20 combinations:

		Industry Maturity			
		Embryonic	Growth	Mature	Aging
Competitive Position	Dominant	-Aggressive push for market share - Invest faster than market share dictates	- Maintain industry position and market share - Invest to sustain growth	- Maintain position, grow market share as the industry grows - Reinvest as necessary	- Maintain industry position - Reinvest as necessary
	Strong	-Aggressive push for market share - Look for ways to improve competitive advantage - Invest faster than market share dictates	-Aggressive push for market share - Look for ways to improve competitive advantage - Invest to increase growth and position	- Maintain position, grow market share as the industry grows - Reinvest as necessary	- Maintain industry position or cut expenditures to maximize profit (harvest) - Minimum reinvestment
	Favorable	- Moderate to aggressive push for market share - Look for ways to improve competitive advantage - Invest selectively	- Look for ways to improve competitive advantage and market share - Selectively invest to improve position	- Develop a niche or other strong differentiating factor and maintain it. - Minimum or selective reinvestment	- Cut expenditures to maximize profit (harvest) or plan a phased withdrawal - Minimum investment or look to get out of current investment
	Tenable	- Look for ways	- Develop a niche	- Develop a niche	- Phased

		to improve industry position - Invest very selectively	or other strong differentiating factor and maintain it - Invest selectively	or other strong differentiating factor and maintain it or plan a phased withdrawal. - Selective reinvestment	withdrawal or abandon market - Get out of investments or divest
	Weak	- Decide if potential benefits outweigh costs, otherwise get out of market - Invest or divest	- Look for ways to improve share and position, or get out of the market - Invest or divest	- Look for ways to improve share and position or plan a phased withdrawal - Selectively invest or divest	- Abandon market - Divest

Using the ADL Matrix

The ADL Matrix provides you with a generic strategy. You need to fine-tune the strategy and tailor it to your current business.

Step1: Identify your industry maturity category.

Think about the following questions as you decide which stage is most descriptive:

- What are you currently experiencing with market growth?
- How many competitors do you have?
- How large is your market?
- Is your investment increasing or decreasing?
- Are your sales increasing, decreasing or staying the same?
- How is your product differentiated from competitor products?

Deciding on an industry life cycle stage is easy, and competitors actions often have a bearing on this, making it hard to determine and predict. Strategy is not an exact science, so do the best you can.

Step2: Determine your competitive position. Choose the best fit. Be careful not to project what you want your position to be, but what it truly is. Take a long, hard look at where you currently operating.

ADL Matrix

		Industry Life Cycle Stage			
		Embryonic	**Growth**	**Mature**	**Aging**
Competitive Position	**Dominant**	All out push for share. Hold Position	Hold Position. Hold Share.	Hold Position. Grow with industry	Hold Position.
	Strong	Attempt to improve position. All out push for share	Attempt to improve position. Push for share.	Hold Position. Grow with industry	Hold Position or Harvest.
	Favorable	Selective or all out put for share. Selective attempt to improve position.	Attempt to improve position. Selective push for share.	Custodial or maintenance. Find niche and attempt to protect it.	Harvest, or phased out withdrawal.
	Tenable	Selectively push for position	Find niche and protect it.	Find niche and hang on, or phased out Withdrawal.	Phased out withdrawal, or Abandon
	Weak	Up or out	Turnaround or abandon	Turnaround, ophaned out withdrawal.	Abandon

Thus depending on where a particular firm lies on the ADL grid, a suitable set of strategies should be adopted by it to gain greater market share and move to higher stages of life cycle and competitive positions.

POSSIBLE QUESTIONS

PART-A

Multiple Choice Questions

Online Examination

Part - B

1. What is strategic planning?
2. Give the elements of planning.
3. What is Strategy implementation?
4. List the main steps in implementing a strategy.
5. Determine the factors of evaluation.
6. Give a note on economies of scale.
7. What is competitive cost dynamics?
8. What is meant by experience curve?
9. What is BCG approach?
10. Differentiate between product innovation and process innovation?
11. What is Location Economics?
12. Write a note on cash flow implication?
13. Give a note on IA-BS matrix.
14. What are stars and question marks?
15. What are cash cows and dogs?
16. List the factors of market attractiveness.
17. List the factors of business strength.
18. What is portfolio?
19. What is Portfolio management?
20. List the Key Elements of Portfolio Management.
21. What is portfolio balancing?
22. What are types of Portfolio Management?
23. List the steps A.D Little life cycle approach.

PART C

1. Explain the methods of constructing BCG Matrix.

2. Discuss A.D.Little Life Cycle approach for strategic planning.

3. Describe the nature of business portfolio balancing required for strategic evaluation.

4. What is IA-BS Matrix? Discuss its significance and limitations.

5.Explain the cashflow implication of business strategy.

6.Examine the importance of experience curve in strategy evaluation.

7.How can strategic control help in resource allocation?

8.Discuss Balanced score card.

9.Discuss the various strategic funds programming.

PART –D

BHARAT HEAVY ELECTRICALS LIMITED CONCENTRATES ON THE POWER EQUIPMENT INDUSTRY

Bharat Heavy Electricals Limited (BHEL) is India's largest engineering and manufacturing enterprise, operating in the energy sector, employing more than 42000 people. Established in 1956, it has established its presence in the heavy electrical equipments industry nationally as well as globally. BHEL in one of the navaratnas among the public sector enterprises in India. Its vision is to be a world class enterprise committed to enhancing stakeholder value. Its mission statement is to be an Indian multinational engineering enterprise providing total business solutions through quality products, systems, and services in the fields of energy, industry, transportation, infrastructure, and other potential areas.

BHEL is huge organization, manufacturing over 180 products categorized into 30 major product groups, catering to the core sector of power generation and transmission, industry, transportation, telecommunications and renewable energy. It has 14 manufacturing divisions, four power sector regional centres , over 100 project sites, eight service centres and 18 regional offices. It acquires technology at its research and development centres. The operations of BHEL are organized into three business sector of power, industry and overseas business. Besides the business sector departments, there are the corporate functional departments of engineering and R&D, human resource development, finance and corporate planning and development. BHEL's turnover hit an all-time high of Rs.18,739 crore, registering a growth of 29 per cent, while net profit increased by 44 per cent to touch Rs.2,415 crore in 2006-07.the company has a comfortable order book position of Rs.55,000 crore for 2007-08 and beyond. The company booked export orders worth Rs.1,903 crore in 2006-07. It is looking forward to US$10 billion. The capital investment plan of BHEL for the 11th national plan period envisages an investment of Rs.3200 crore. Mainly to enhance its manufacturing capacity from 10000MW to 15000MW.

BHEL has formulated a five-year strategic plan with the aim of achieving a sustainable profitable growth, targeting at a turnover of Rs.45,000 crore by 2012. The strategy is driven by a combination of organic and inorganic growth. Organic growth is planned through capacity and capability enhancement, designed to leverage the company's core areas of power, supported by the industry transmission, exports and spares and services businesses. For the purpose of inorganic growth, BHEL plans to pursue mergers and acquisition and joint ventures and grow operations both in domestic and export. BHEL in involved in several strategic business initiatives at present for internationalisation. These include targeting the export markets, positioning itself s a reputed engineering, procurement and construction(EPC) contractor globally, and looking for opportunities for overseas joint ventures.

An example of a concentration strategy of BHEL in the power sector is the joint venture with anther public enterprise, national Thermal Power Corporation, to perform EPC activities in the power generation utility and BHEL as an EPC contractor have worked together on several domestic projects earlier, but without a formal partnership. BHEL also has joint ventures with GE of the US and Siemens AG of Germany. Other strategic initiatives include management contract for Bharat Pumps compressor Ltd. And a proposed takeover of Bharat heavy plates and vessels, both being sister public sector enterprises. Despite its impressive performance, BHEL is unable to fulfill the requirements for power equipment in the country. The demand for power has been exceeding the growth and availability. There are serious concerns about energy Shortages owing to inadequate generation and transmission, as well as inefficiencies in the power sector. Since this sector is a major part of the national infrastructure, problems in the power sector affect the overall economic growth of the country as well as its attractiveness as a destination for foreign investments. BHEL also faces stiff competition from international players in the power equipment sector, mainly of Korean and Chinese origin.

There seems to be an undercurrent of conflict between the two governmental ministries of power and heavy industries. BHEL operates administratively under the Ministry of heavy industries, but supplies mainly to the power sector that is under the Ministry of power. There has been talk of establishing another power equipment company as a part of the NTPC for some time, with the purpose of lessening the burden on BHEL.

Questions

1. BHEL is mainly formulating and implementing concentration strategies nationally as well globally, in the power equipment sector. Do you think it should broaden the scope of its strategies to include integration or diversification? Why?

2. Suppose BHEL plans to diversify its business. What areas should it diversify into? Give reasons to justify your choice.

UNIT-V- STRATEGY EVALUATION AND CONTROL

SYLLABUS

Unit V Strategy Evaluation and Control: Various approach to implementation of strategy – Matching organization structure with strategy – 7S model – Strategic control process – Requirement of effective evaluation - Techniques of strategic evaluation and control - Du Pont‘s control model - Quantitative and Qualitative tools – Balanced score Card – M Porter‘s approach for Globalization – Future of Strategic Management.

STRATEGIC IMPLEMENTATION AND CONTROL

Once a strategy has been identified, it must then be put into practice. The implementation of strategy is of great importance. Conducting a corporate strategy is worthless as long as it is not implemented correctly by each department of the organization This may involve organising, resourcing and utilising change management procedures:

Organizing

Organizing relates to how an organizational design of a company can fit or align with a chosen strategy. This concerns the nature of reporting relationships, spans of control, and any strategic business units (SBUs) that require to be formed. Typically, an SBU will be created (which often has some degree of autonomous decision-making) if it exists in a market with unique conditions, or has/requires unique strategic capabilities (,i.e. the skills needed for the running and competition of the SBU are different).

Resourcing

Resourcing is literally the resources required to put the strategy into practice, ranging from human resources, to capital equipment, and to ICT-based implements.

Change management

In the process of implementing strategic plans, an organization must be wary of forces that may legitimately seek to obstruct such changes. It is important then that effectual change management practices are instituted. These encompass:

- The appointment of a change agent, as an individual who would champion the changes and seek to reassure and allay any fears arising.
- Ascertaining the causes of the resistance to organizational change (whether from employees, perceived loss of job security, etc.)
- Via change agency, slowly limiting the negative effects that a change may uncover.

Testing the Strategic Alignment of the organization

The optimal performance of organizations is highly dependent on the level of Strategic Alignment. Until 2010 Change management was used to implement a strategy. In 2010 the Rotterdam School of Management together with the Erasmus School of Economics conducted research on the measurement possibilities of Strategic Alignment. This cooperation led to the introduction of the S-ray Alignment Scan. The S-ray Alignment Scan is a visual of the Corporate Strategy measured against the level of understanding and implementation of the organizational departments. In 2011 Erasmus University of Rotterdam introduced S-ray Diagnostics, which is a spin-off of this cooperation, solely focused on measuring strategic alignment of organizations.

General approaches

In general terms, there are two main approaches, which are opposite but complement each other in some ways, to strategic management:

The Industrial Organizational Approach

- based on economic theory — deals with issues like competitive rivalry, resource allocation, economies of scale
- assumptions — rationality, self discipline behaviour, profit maximization

The Sociological Approach

- deals primarily with human interactions
- assumptions — bounded rationality, satisfying behaviour, profit sub-optimality. An example of a company that currently operates this way is Google. The stakeholder focused approach is an example of this modern approach to strategy.

Strategic management techniques can be viewed as bottom-up, top-down, or collaborative processes. In the bottom-up approach, employees submit proposals to their managers who, in turn, funnel the best ideas further up the organization. This is often accomplished by a capital budgeting process. Proposals are assessed using financial criteria such as return on investment or cost-benefit analysis.

Cost underestimation and benefit overestimation are major sources of error. The proposals that are approved form the substance of a new strategy, all of which is done without a grand strategic design or a strategic architect. The top-down approach is the most common by far. In it, the CEO, possibly with the assistance of a strategic planning team, decides on the overall direction the company should take. Some organizations are starting to experiment with collaborative strategic planning techniques that recognize the emergent nature of strategic decisions.

Strategic decisions should focus on Outcome, Time remaining, and current Value/priority. The outcome comprises both the desired ending goal and the plan designed to reach that goal. Managing strategically requires paying attention to the time remaining to reach a particular level or goal and adjusting the pace and options accordingly. Value/priority relates to the shifting, relative concept of value-add. Strategic decisions should be based on the understanding that the value-add of whatever you are managing is a constantly changing reference point. An objective that begins with a high level of value-add may change due to influence of internal and external factors. Strategic management by definition, is managing with a heads-up approach to outcome, time and relative value, and actively making course corrections as needed.

IMPLEMENTING STRATEGY: ORGANIZATION STRUCTURE, DISTINCTIVE COMPETENCES, AND RESOURCE ALLOCATION

Just being able to conceits bold new strategies is not enough. The general manager must also be able to translate his or her strategic vision into concrete steps that "get things done”

Strategy formulation entails heavy doses of vision, analysis, and entrepreneurial judgment, successful strategy implementation depends on the skills of working through others, organizing, motivating, culture-building, and creating stronger fits be-teen strategy and how the organization operates Ingrained behavior does not change just because a new strategy has been announced.

Practitioners emphatically state that it is a whole lot easier to develop a sound strategic plan than it is to '*make it happen." Let s look at what strategy implementation involves:

What makes the job of the strategy manager so complicated when it comes to implementation is the number of tasks involved and the variety of ways to approach each task. Strategy implementation has to be tailored to the organization's overall condition and selling, to the nature of the strategy and the amount of strategic change involved and to the manager's own skills, style, and methods.

Four broad areas stand out:

1. Performing the recurring administrative tasks associated with strategy implementation.
2. Creating "fits" between strategy and the various internal "ways of doing things" in order to align the whole organization behind strategy accomplishment.
3. Figuring out an agenda and a set of action priorities that matches[1] up well with the organization's overall situation and the context of the- sluing in which implementation must take place.
4. What managerial approach and leadership style to adopt in inducing the needed organizational changes.

The strategy implementer's challenge in performing these tasks is to bring (he organization's conduct of internal operations into good alignment with strategy and to unite the total organization- behind strategy accomplishment. The implemented job is one of building such enthusiasm and commitment up and down the ranks that a virtual organization wide crusade emerges to carry out the chosen strategy.

Strategy-supportive matches arc needed with organizational skills \ and capabilities, functional area activities, organization structure, reward systems, and incentives, policies and procedures, information systems and control mechanisms, budgets and programs, and shared values and cultural norms.

The Administrative Aspects of Strategy Implementation

The Manager's role in the implementation process is to leading and keynoting the tone: pace, and style of strategy implementation. There are many ways lo proceed. A strategy implementer can opt for an active, visible role or a low-key, behind the scenes role. He or she can elect to make decisions authoritatively or on the basis of consensus, lo delegate much or little, to be deeply involved in the detail* of implementation or to remain aloof from the day-to-day problems. It is up to the strategy implementer to decide whether to proceed swiftly (launching implementation initiatives on many fronts) or *lo* move deliberately, content with gradual progress over a long period.

To some extent, therefore, each strategy implementation situation is unique enough [o require the strategy manager to tailor his or her action agenda to fit the specific 'organizational environment at hand- This forces the manager to be conscious of all that strategy implementation involves and to diagnose carefully the action priorities and in what sequence things need to be done. The manager's role is thus all-important His or her agenda for action and conclusions about how hard and how fast to push for change are decisive in shaping the character of implementation and moving the process along.

Successful strategy execution depends greatly on good internal organization and competent personnel. Building a capable organization is thus always a top strategy implementation priority. Three organizational issues stand out as dominant:

- Developing an internal organization structure that is responsive to the needs of
- Developing the skills and distinctive competences in which the strategy grounded and seeing that the organization has the managerial talents, technical expertise, and competitive capabilities it needs.
- Selecting people for key positions.

MATCHING ORGANIZATION STRUCTURE TO STRATEGY

The following five-sequence procedure serves as a useful guide for fitting structure to strategy:

1. Pinpoint the key functions and tasks requisite for successful strategy execution

In any organization, some activities and skills are always more critical to strategic success than others are.

The strategy-critical activities vary according to the particulars of a firm's strategy and competitive requirements.

To help identify what an organization's strategy-critical activities are, two questions can usefully be posed: "What functions have to be performed, extra well and on lime for the strategy to succeed?" and "In what areas would mal performance seriously endanger strategic success[1]?"'The answers to these two questions should point squarely *at* what activities and skills are crucial and where to concentrate organization-building efforts

2. Understanding the Relationships among Activities

Activities can be related by the flow of material through the production process, the type of customer served, the distribution channels used, the technical skills and know-how needed to perform them, a strong need to centralize authority over them, the sequence in which tasks must be performed, and geographic location, to mention some of the most obvious ways. Such relationships are important because one (or more) of the interrelationships usually become the basis for grouping activities into organizational units. If the needs of strategy are to drive organization design, then the relationships to look for are those that link one piece of the strategy to another.

3. Grouping Activities into Organization Units

If activities crucial to strategic success are to get the attention and visibility they merit, then they have to be a prominent part of the organizational scheme.

When key functions and critical tasks take a backseat to less important activities. the politics *of* organizational budget making usually leads to them being given fewer resources and accorded less significance than they actually have. On the other hand, when they form the core of the whole organization structure, their role and power in the overall scheme of things is highlighted and institutionalized. Senior managers can seldom give a stronger signal as to what is strategically important than by making key function and critical skills the most prominent organizational building blocks and, further, assigning them a high position in the organizational pecking order.

4. Determining the Degree of Authority and independence to Gave Each Unit

Activities and organizational units with a key role in strategy execution should not made subordinate to routine and non-key activities. Revenue-producing and results-producing activities should not made subordinate to internal support or staff functions. With few exceptions, decisions should delegate to those managers closest to the scene of the action. Corporate-level authority over operating decisions at the business-unit level and below should held to a minimum. The crucial administrative skill is selecting strong managers to head up each unit and delegating them enough authority to formulate and execute an appropriate strategy for their unit.

5. Providing for Coordination among the Units

Providing for coordination of the activities of organizational units is accomplished mainly through positioning them in the hierarchy of authority. Managers higher up in the pecking order generally have authority over more organizational units and thus the power to coordinate, integrate, and otherwise arrange for the cooperation of the units under their supervision. The chief executive officer, to chief operating officer, and business-level managers are, of course central points of coordination because they have broad authority. Besides positioning organizational units along the vertical scale of managerial authority, coordination of strategic efforts can also achieved through informal meetings, project teams, special task fortes, standing committees, formal strategy reviews, and annual strategic planning and budgeting cycles. Additionally, the formulation of the strategic plan itself serves a coordinating role; the whole process of negotiating and deciding on the objectives and strategies of each organizational unit and making sure that related activities mesh suitably help coordinate operations, across organizational units.

How Structure Evolves as Strategy Evolves: The Stages Model

Four distinct stages of strategy-related organization structure have singled out:

Stage1 Stage 1 organizations, are small, single-business enterprises managed by one person. The owner-entrepreneur has close daily contact with employees and each phase of operations. Most employees report directly to the owner, who mates all the pertinent decisions regarding mission, objectives, strategy, and daily operations.

Stage II organizations differ from Stage I enterprises in one essential aspect: an increased scale and scope of operations force a transition from one-person management to group management.

Stage III consists of organization whose operations, though concentrated in a single field or product line, are scattered over a wide geographical area and large enough to justify having geographically decentralized operating units. These units all report to corporate headquarters and conform to corporate policies, but they are given the flexibility to tailor their unit's strategic plan to meet the specific needs of each respective geographic area. Ordinarily, each of the geographic operating units Of a Stage III Organization is structured along functional lines.

The key difference between Stage II and Stage III, however, is that while the functional units of a Stage II organization stand or fall together (in that they are built around one business and one end market), the geographic operating units of a Stage III firm can stand alone (or nearly so) in the sense that the operations in each geographic unit are not dependent on those in other areas. Typical firms in this category are breweries, cement companies, and steel mills having production capacity and sales organizations m several geographically separate market areas.

Stage IV includes large, diversified firms decentralized by line of business. Typically, each separate business unit is headed by a general manager who has profit-and-loss responsibility and whose authority extends across all of the unit's functional areas except, perhaps, accounting and capital investment (both of which are traditionally subject to corporate approval). Both business strategy decisions and operating decisions are concentrated at the line-of-business level rather than at the corporate level

The Strategy-Related Pros and Cons of Alternative Organization Forms

There are essentially five strategy-related approaches to organization: (1) functional specialization, (2) geographic organization, (3) decentralized business divisions, (4) strategic business units, and (5) matrix structures featuring dual lines of authority and strategic priority.

The Functional Organization Structure

Generally speaking- organizing by functional specialties promotes full utilization of the most up-to-date technical skills and helps a business capitalize on the efficiency gains resulting from use of [hose technical skills; it also helps a business capitalize an the efficiency gains resulting from the use of specialized manpower, faculties, and equipment. These are strategically important considerations for single-business organizations, dominant-product enterprises, and vertically integrated firms, and account for why they usually have some kind of centralized, functionally specialized structure.

Geographic Forms of Organization

Used by large-scale enterprises whose strategies need to be tailored to fit the particular needs and features of different geographical areas.

In the private sector, a territorial structure is typically utilized by chain store
retailers, power companies, cement firms, and dairy products enterprises. In the public sector, such organizations as the Internal Revenue Service, the Social Security Administration, the federal courts, the U.S. Postal Service, the state troopers, and the Red Cross have adopted territorial "structures in order to be directly accessible to geographically dispersed clients.

Decentralized Business Units

Grouping activities along business and product lines has been a clear-cut trend among diversified enterprises for the past half-century, beginning with the pioneering efforts of Du Pont and General Motors in the 1920s. Separate business/product divisions emerged because diversification made. a functionally specialized manager's job incredibly complex

Strategy implementation is facilitated by grouping key activities belonging to the same business under one organizational roof, thereby creating line-of-business units (which then can be subdivided into whatever functional subunits suit the key activities/ critical tasks makeup of the business. The outcome is not only a structure, which fits strategy, but also a structure that makes the jobs of managers more doable. The creation of separate business units is then accomplished by decentralizing authority over the unit to the business-level manager. The approach, very simply, is to put entrepreneurial general managers in charge of the business unit, giving them enough authority to formulate and implement the business Strategy chat they deem appropriate, motivating them with incentives, and then holding than accountable for the results they produce. However, when a strung strategic fit exists across related business units, it can be tough to get autonomy-conscious business-unit managers to cooperate in coordinating and snaring related activities. They are prone to argue long and hard about "turf" and about held accountable for activities not totally under their control.

Strategic Business Units

A strategic business unit (SBU) is a grouping of business units based on some important strategic elements common to each; the possible elements of relatedness include an overlapping set of competitors, a closely related strategic mission, a common need to compete globally, an ability to accomplish integrated strategic planning, common key success factors, and technologically related growth opportunities.

Matrix Forms of Organization

A matrix organization is a structure with two for more) channels of command, two lines of budget authority, and two sources of performance and reward. The key feature of the matrix is that product (or business) and functional lines of authority are overlaid (to form a matrix or grid), and managerial authority over the activities in each unit/cell of the matrix is shared between the product manager and functional manager.

Selecting People for Key Positions

Assembling a capable management team is an obvious part of the strategy implementation *task.* The recurring administrative issues here center on what kind of core management team is needed to carry out the strategy and finding the people to fill each slot. Sometimes the existing management team is suitable and sometimes the core executive group needs to strengthened and/or expanded, either by promoting qualified people from within or by bringing in skilled managerial talent from the outside to help infuse fresh ideas and fresh approaches into the organization's management. In turnaround situations, in rapid-growth situations, and in those cases, where the right kinds of managerial experience and skills are not present in-house, recruiting outsiders to fill key management slots is a standard part of the organization-building process.

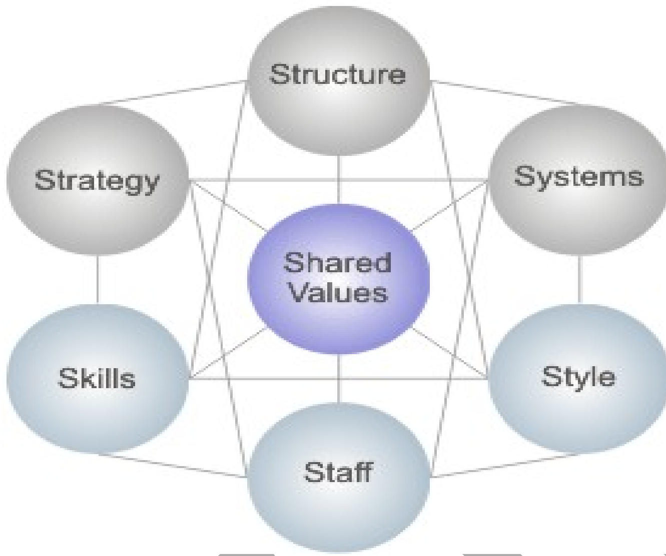
7-S MODEL – A SYSTEMIC APPROACH TO IMPROVING ORGANIZATIONS

The 7-S model is a tool for managerial analysis and action that provides a structure with which to consider a company as a whole, so that the organization's problems may be diagnosed and a strategy may be developed and implemented.

The 7-S diagram illustrates the multiplicity interconnectedness of elements that define an organization's ability to change. The theory helped to change manager's thinking about how companies could be improved. It says that it is not just a matter of devising a new strategy and following it through. Nor is it a matter of setting up new systems and letting them generate improvements.

To be effective, your organization must have a high degree of fit, or internal alignment among all the seven Ss. Each S must be consistent with and reinforce the other Ss. All Ss are interrelated, so a change in one has a ripple effect on all the others. It is impossible to make progress on one without making progress on all. Thus, to improve your organization, you have to master systems thinking and pay attention to all of the seven elements at the same time. There is no starting point or implied hierarchy – different factors may drive the business in any one organization.

Figure 1: The McKinsey 7S Model



1. **Strategy** – the route that the organization has chosen for its future growth; a plan an organization formulates to gain a sustainable competitive advantage.
2. **Structure** – the framework in which the activities of the organization's members are coordinated. The four basic structural forms are the functional form, divisional structure, matrix structure, and network structure.
3. **Systems** – the formal and informal procedures, including innovation systems, compensation systems, management information systems, and capital allocation systems, that govern everyday activity.
4. **Style** – the leadership approach leadership of top management and the organization's overall operating approach; also the way in which the organization's employees present themselves to the outside world, to suppliers and customers.
5. **Skills** – what the company does best; the distinctive capabilities and competencies that reside in the organization.
6. **Staff** – the organization's human resources; refers to how people are developed, trained, socialized, integrated, motivated, and how their carriers are managed.
7. **Shared values** – originally called super ordinate goals; the guiding concepts and principles of the organization – **values** and aspirations, often unwritten – that go beyond the

conventional statements of corporate objectives; the fundamental ideas around which a business is built; the things that influence a group to work together for a common aim.

Mckinsey's framework has significance in strategic planning. The following points explain it.

- It provides a good framework of the seven 's' and align them to energies and executive
- strategies
- It is an excellent multivariate model of organizational change
- It provides a convenient means of checking whether an organization has the necessary conditioning for implementing strategy
- Organizational capabilities (strengths and weaknesses may be evaluated along each of the seven dimensions)

STRATEGIC CONTROL PROCESS

Regardless of the type or levels of control systems an organization needs, control may be depicted as a six-step feedback model:

1. Determine What to Control: The first step in the control process is determining the major areas to control. Managers usually base their major controls on the organizational mission, goals and objectives developed during the planning process. Managers must make choices because it is expensive and virtually impossible to control every aspect of the organization's

2. Set Control Standards: The second step in the control process is establishing standards. A control standard is a target against which subsequent performance will be compared. Standards are the criteria that enable managers to evaluate future, current, or past actions. They are measured in a variety of ways, including physical, quantitative, and qualitative terms. Five aspects of the performance can be managed and controlled: **quantity, quality, time cost, and behavior**

Standards reflect specific activities or behaviors that are necessary to achieve organizational goals. Goals are translated into performance standards by making them measurable. An organizational goal to increase market share, for example, may be translated into a top-management performance standard to increase market share by 10 percent within a twelve-month period. Helpful measures of strategic performance include: sales (total, and by division, product category, and region), sales growth, net profits, return on sales, assets, equity, and investment cost of sales, cash flow, market share, product quality, valued added, and employees productivity.

Quantification of the objective standard is sometimes difficult. For example, consider the goal of product leadership. An organization compares its product with those of competitors and determines the extent to which it pioneers in the introduction of basis product and product improvements. Such standards may exist even though they are not formally and explicitly stated.

Setting the timing associated with the standards is also a problem for many organizations. It is not unusual for short-term objectives to be met at the expense of long-term objectives. Management must develop standards in all performance areas touched on by established organizational goals. The various forms standards are depend on what is being measured and on the managerial level responsible for taking corrective action.

3. Measure Performance: Once standards are determined, the next step is measuring performance. The actual performance must be compared to the standards. Many types of measurements taken for control purposes are based on some form of historical standard. These standards can be based on data derived from the **PIMS (profit impact of market strategy)** program, published information that is publicly available, ratings of product / service quality, innovation rates, and relative market shares standings.

Strategic control standards are based on the practice of **competitive benchmarking** - the process of measuring a firm's performance against that of the top performance in its industry. The proliferation of computers tied into networks has made it possible for managers to obtain up-to-minute status reports on a variety of quantitative performance measures. Managers should be careful to observe and measure in accurately before taking corrective action.

4. Compare Performance to Standards: The comparing step determines the degree of variation between actual performance and standard. If the first two phases have been done well, the third phase of the controlling process – comparing performance with standards – should be straightforward. However, sometimes it is difficult to make the required comparisons (e.g., behavioral standards). Some deviations from the standard may be justified because of changes in environmental conditions, or other reasons.

5. Determine the Reasons for the Deviations: The fifth step of the control process involves finding out: "why performance has deviated from the standards?" Causes of deviation can range from selected achieve organizational objectives. Particularly, the organization needs to ask if the deviations are due to internal shortcomings or external changes beyond the control of the organization. A general checklist such as following can be helpful:

- Are the standards appropriate for the stated objective and strategies?
- Are the objectives and corresponding still appropriate in light of the current environmental situation?
- Are the strategies for achieving the objectives still appropriate in light of the current environmental situation?
- Are the firm's organizational structure, systems (e.g., information), and resource support adequate for successfully implementing the strategies and therefore achieving the objectives?
- Are the activities being executed appropriate for achieving standard?

6. Take Corrective Action: The final step in the control process is determining the need for corrective action. Managers can choose among three courses of action: (1) they can do nothing (2) they can correct the actual performance (3) they can revise the standard.

When standards are not met, managers must carefully assess the reasons why and take corrective action. Moreover, the need to check standards periodically to ensure that the standards and the associated performance measures are still relevant for the future.

The final phase of controlling process occurs when managers must decide action to take to correct performance when deviations occur. Corrective action depends on the discovery of deviations and the ability to take necessary action. Often the real cause of deviation must be found before corrective action can be taken. Causes of deviations can range from unrealistic objectives to the wrong strategy being selected achieve organizational objectives. Each cause requires a different corrective action. Not all deviations from external environmental threats or opportunities have progressed to the point a particular outcome is likely, corrective action may be necessary.

DuPont analysis

Definition

DuPont formula (also known as the **DuPont analysis, DuPont Model, DuPont equation** or the **DuPont method**) is a method for assessing a company's return on equity (ROE) breaking its into three parts. The name comes from the DuPont Corporation that started using this formula in the 1920s.

Calculation (formula)

ROE (DuPont formula) = (Net profit / Revenue) * (Revenue / Total assets) * (Total assets / Equity) = Net profit margin * Asset Turnover * Financial leverage

DuPont model tells that ROE is affected by three things:

- Operating efficiency, which is measured by net profit margin;
- Asset use efficiency, which is measured by total asset turnover;
- Financial leverage, which is measured by the equity multiplier;

If ROE is unsatisfactory, the DuPont analysis helps locate the part of the business that is underperforming.

DuPont Model

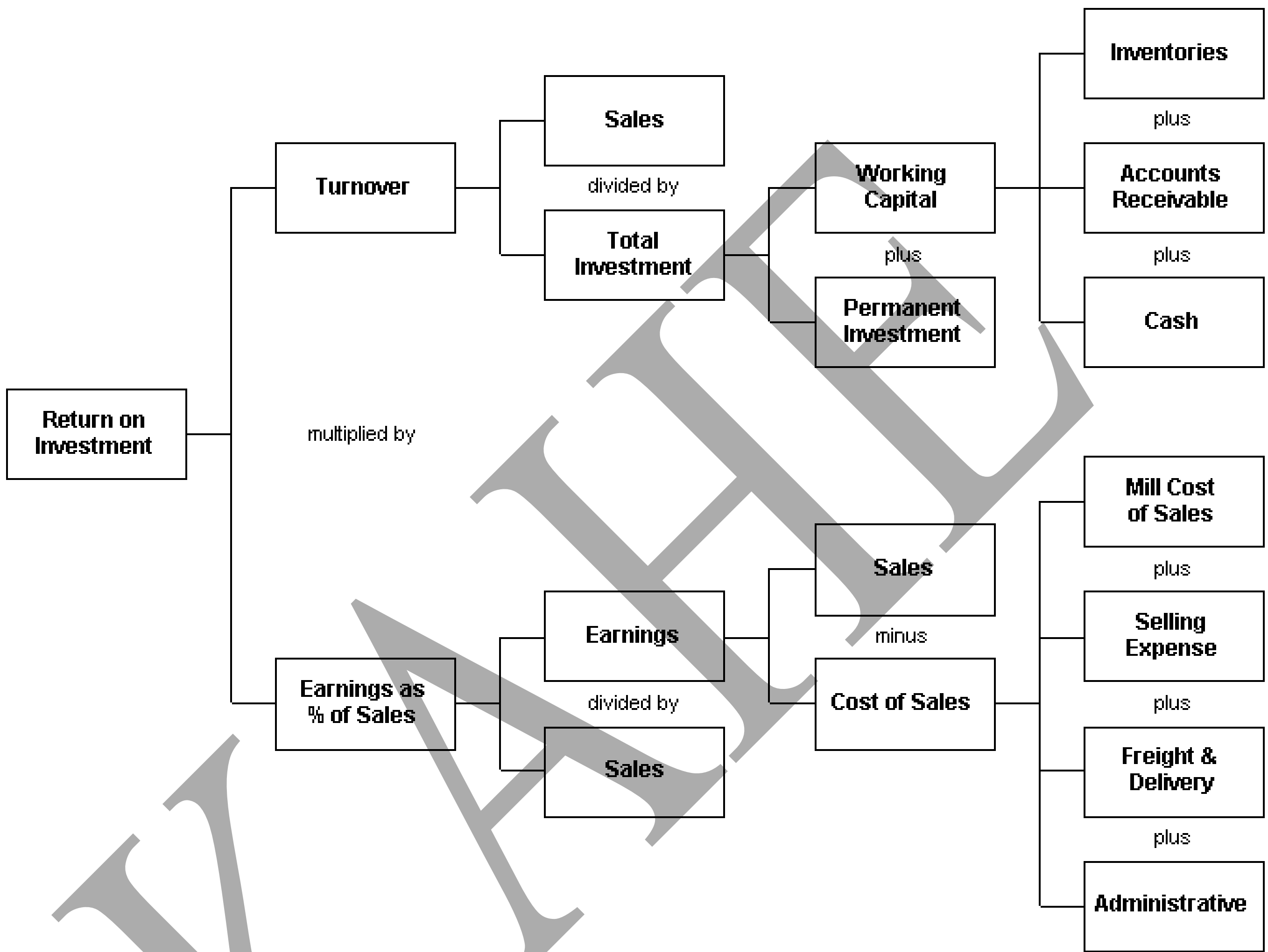
The **DuPont Model**, developed in 1914 by F. Donaldson Brown of chemical company DuPont de Nemours & Co, is a set of financial ratios and key figures relating to the Return on Investment (ROI). It is a technique that can be used to analyze the profitability of a company using traditional performance figures. It integrates elements of the Income Statement with those of the Balance Sheet.

ROI = (Profit + Cost of Capital) / (Average Capital) whereas cost of capital refers to the interest payment for liabilities and average capital refers to the annual average of owners equity and liabilities

Enhancing the equation with (Revenue / Revenue),

ROI = ((Profit + Cost of Capital) / Revenue) x (Revenue / Average Capital)

ROI = Net Profit Margin x Total Assets Turnover



DuPont Analysis

The analysis of the DuPont tree (by looking at each branch and its figures) allows the manager/investor to identify the key drivers, as well as their impact on the ROI. Identified weaknesses simultaneously show up potential for improvement. It is especially well suited for benchmarking.

Although the DuPont analysis offers a clear overview of the most relevant drivers of the ROI and their interconnection, it cannot replace a detailed analysis. The figures and ratios may only indicate general tendencies and developments.

'Return on Investment - ROI'

A performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. To calculate ROI, the benefit (return) of an investment is divided by the cost of the investment; the result is expressed as a percentage or a ratio.

The return on investment formula:

$$\text{ROI} = \frac{(\text{Gain from investment} - \text{Cost of investment})}{\text{Cost of investment}}$$

In the above formula "gains from investment", refers to the proceeds obtained from selling the investment of interest. Return on investment is a very popular metric because of its versatility and simplicity. That is, if an investment does not have a positive ROI, or if there are other opportunities with a higher ROI, then the investment should be not be undertaken.

Return on investment (ROI) is a performance measure used to evaluate the efficiency of an investment or to compare the efficiency of a number of different investments. It is one way of considering profits in relation to capital invested.

Calculation

For a single-period review divide the return (net profit) by the resources that were committed (investment)

Return on investment (%) = Net profit / Investment × 100 or
Return on investment = (gain from investment - cost of investment) / cost of investment

'Return on Equity - ROE'

The amount of net income returned as a percentage of shareholders equity. Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

ROE is expressed as a percentage and calculated as:

Return on Equity = Net Income/Shareholder's Equity

Net income is for the full fiscal year (before dividends paid to common stock holders but after dividends to preferred stock.) Shareholder's equity does not include preferred shares.

Return on Equity - ROE

One of the most important profitability metrics is return on equity (or ROE for short). Return on equity reveals how much profit a company earned in comparison to the total amount of shareholder equity found on the balance sheet. If you think back to lesson three, you will remember that shareholder equity is equal to total assets minus total liabilities. It's what the shareholders "own". Shareholder equity is a creation of accounting that represents the assets created by the retained earnings of the business and the paid-in capital of the owners.

Profit margin, **net margin**, **net profit margin** or **net profit ratio** all refer to a measure of profitability. It is calculated by finding the net profit as a percentage of the revenue

$$\text{Net profit margin} = \frac{\text{Net Income}}{\text{Revenue}} \times 100$$

Where Net Income = Revenue - Cost

The profit margin is mostly used for internal comparison. It is difficult to accurately compare the net profit ratio for different entities. Individual businesses' operating and financing arrangements vary so much that different entities are bound to have different levels of expenditure, so that comparison of one with another can have little meaning. A low profit margin indicates a low margin of safety: higher risk that a decline in sales will erase profits and result in a net loss, or a negative margin.

Profit margin is an indicator of a company's pricing strategies and how well it controls costs. Differences in competitive strategy and product mix cause the profit margin to vary among different companies.

Profit margin represents the percentage of revenue that a company keeps as profit after accounting for fixed and variable costs. It is calculated by dividing net income by revenue. The profit margin is mainly used for internal comparisons, because acceptable profit margins vary between industries. In general, narrow profit margins indicate increased volatile earnings. For companies with significant fixed costs, wide profit margins reduce the risk that a decline in sales will cause a net profit loss.

Market share is the percentage of a market (defined in terms of either units or revenue) accounted for by a specific entity." In a survey of nearly 200 senior marketing managers, 67 percent responded that they found the "dollar market share" metric very useful, while 61% found "unit market share" very useful.

"Marketers need to be able to translate sales targets into market share because this will demonstrate whether forecasts are to be attained by growing with the market or by capturing share from competitors. The latter will almost always be more difficult to achieve. Market share is closely monitored for signs of change in the competitive landscape, and it frequently drives strategic or tactical action."

Increasing market share is one of the most important objectives of business. The main advantage of using market share as a measure of business performance is that it is less dependent upon macro environmental variables such as the state of the economy or changes in tax policy. However, increasing market share may be dangerous for makers of fungible hazardous products, particularly products sold into the United States market, where they may be subject to market share liability.

'Market Share'

The percentage of an industry or market's total sales that is earned by a particular company over a specified time period. Market share is calculated by taking the company's sales over the period and dividing it by the total sales of the industry over the same period. This metric is used to give a general idea of the size of a company to its market and its competitors.

'Debt/Equity Ratio'

A measure of a company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.

$$= \frac{\text{Total Liabilities}}{\text{Shareholders Equity}}$$

The **debt-to-equity ratio (D/E)** is a financial ratio indicating the relative proportion of shareholders' equity and debt used to finance a company's assets. Closely related to leveraging, the ratio is also known as **Risk**, **Gearing** or **Leverage**. The two components are often taken from the firm's balance sheet or statement of financial position (so-called book value), but the ratio may also be calculated using market values for both, if the company's debt and equity are publicly traded, or using a combination of book value for debt and market value for equity financially.

The **debt-to-equity ratio (debt/equity ratio, D/E)** is a financial ratio indicating the relative proportion of entity's equity and debt used to finance an entity's assets. This ratio is also known as **financial leverage.**

Debt-to-equity ratio is the key financial ratio and is used as a standard for judging a company's financial standing. It is also a measure of a company's ability to repay its obligations. When examining the health of a company, it is critical to pay attention to the debt/equity ratio. If the ratio is increasing, the company is being financed by creditors rather than from its own financial sources which may be a dangerous trend. Lenders and investors usually prefer low debt-to-equity ratios because their interests are better protected in the event of a business decline. Thus, companies with high debt-to-equity ratios may not be able to attract additional lending capital.

'Earnings Per Share - EPS'

The portion of a company's profit allocated to each outstanding share of common stock. Earnings per share serves as an indicator of a company's profitability.

Calculated as:

$$= \frac{\text{Net Income - Dividends on Preferred Stock}}{\text{Average Outstanding Shares}}$$

$$= \frac{\text{Net Income – Dividends on preferred stock}}{\text{Average outstanding shares}}$$

Earnings per Share Ratio | EPS Ratio

Description: The *earnings per share ratio* (EPS ratio) measures the amount of a company's net income that is theoretically available for payment to the holders of its common stock. A company with a high earnings per share ratio is capable of generating a significant dividend for investors, or it may plow the funds back into its business for more growth; in either case, a high ratio indicates a potentially worthwhile investment, depending on the market price of the stock.

Balanced Scorecard

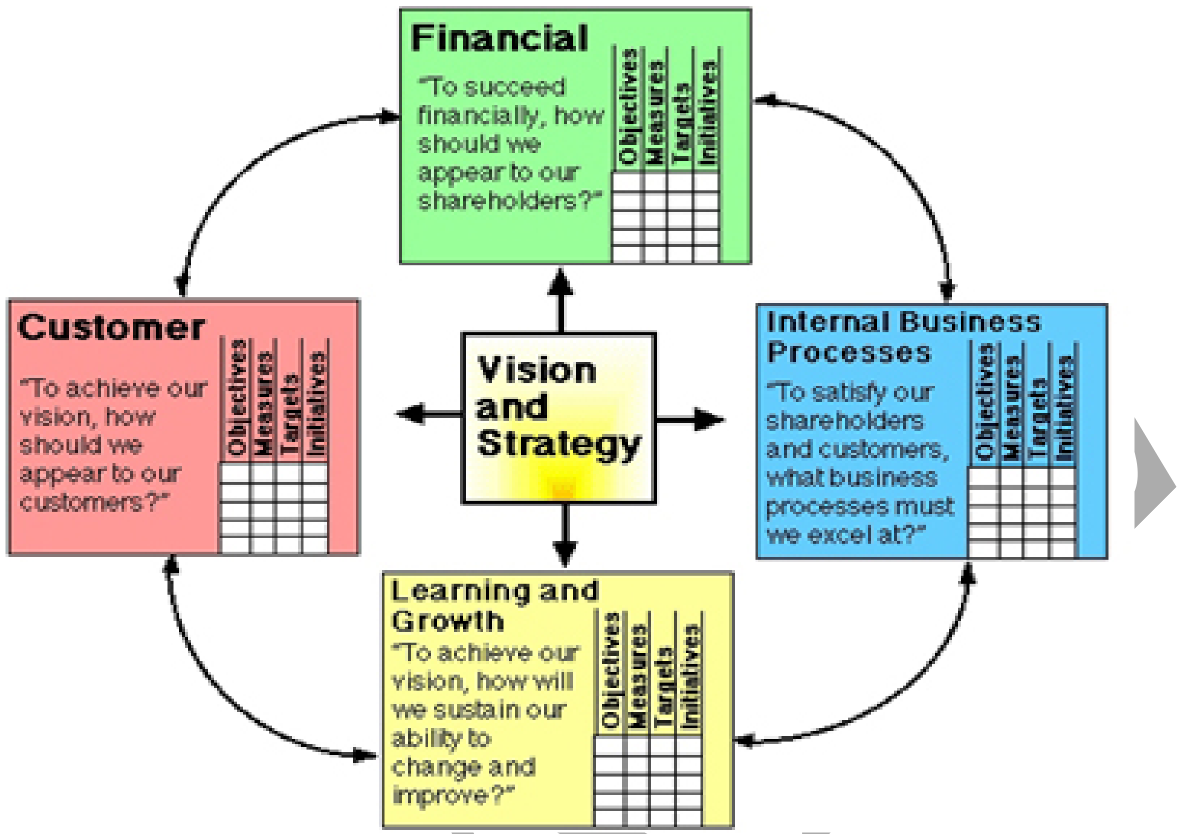
The balanced scorecard is a strategic planning and management system that is used extensively in business and industry, government, and nonprofit organizations worldwide to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organization performance against strategic goals. It was originated by Drs. Robert Kaplan (Harvard Business School) and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics to give managers and executives a more 'balanced' view of organizational performance. While the phrase balanced scorecard was coined in the early 1990s, the roots of the this type of approach are deep, and include the pioneering work of General Electric on performance measurement reporting in the 1950's and the work of French process engineers (who created the *Tableau de Bord* – literally, a "dashboard" of performance measures) in the early part of the 20th century.

The balanced scorecard has evolved from its early use as a simple performance measurement framework to a full strategic planning and management system. The "new" balanced scorecard transforms an organization’s strategic plan from an attractive but passive document into the "marching orders" for the organization on a daily basis. It provides a framework that not only provides performance measurements, but helps planners identify what should be done and measured. It enables executives to truly execute their strategies.

This new approach to strategic management was first detailed in a series of articles and books by Drs. Kaplan and Norton. Recognizing some of the weaknesses and vagueness of previous management approaches, the balanced scorecard approach provides a clear prescription as to what companies should measure in order to 'balance' the financial perspective. The balanced scorecard is a management system (not only a measurement system) that enables organizations to clarify their vision and strategy and translate them into action. It provides feedback around both the internal business processes and external outcomes in order to continuously improve strategic performance and results. When fully deployed, the balanced scorecard transforms strategic planning from an academic exercise into the nerve center of an enterprise.

Kaplan and Norton describe the innovation of the balanced scorecard as follows:

"The balanced scorecard retains traditional financial measures. But financial measures tell the story of past events, an adequate story for industrial age companies for which investments in long-term capabilities and customer relationships were not critical for success. These financial measures are inadequate, however, for guiding and evaluating the journey that information age companies must make to create future value through investment in customers, suppliers, employees, processes, technology, and innovation."



Perspectives

The balanced scorecard suggests that we view the organization from four perspectives, and to develop metrics, collect data and analyze it relative to each of these perspectives:

Balanced Scorecard – Perspectives

The four perspectives are:

- **Financial perspective** - how does the firm look to shareholders?
- **Customer perspective** - how do customers see the firm?
- **Internal perspective** - how well does it manage its operational processes?
- **Innovation and learning perspective** – can the firm continue to improve and create value? This perspective also examines how an organisation learns and grows.

For each of four perspectives it is necessary to identify indicators to measure the performance of the organizations.

The Financial Perspective

Kaplan and Norton do not disregard the traditional need for financial data. Timely and accurate funding data will always be a priority, and managers will do whatever necessary to provide it. In fact, often there is more than enough handling and processing of financial data. With the implementation of a corporate database, it is hoped that more of the processing can be centralized and automated. But the point is that the current emphasis on financials leads to the "unbalanced" situation with regard to other perspectives. There is perhaps a need to include additional financial-related data, such as risk assessment and cost-benefit data, in this category.

This is concerned with the shareholders view of performance. Shareholders are concerned with many aspects of financial performance: Amongst the measures of success are:

- Market share
- Revenue growth
- Profit ratio
- Return on investment
- Economic value added
- Return on capital employed
- Operating cost management
- Operating ratios and loss ratios
- Corporate goals
- Survival
- Profitability
- Growth
- Process cost savings
- Increased return on assets
- Profit growth
- Measures
- Cash flow
- Net profitability ratio
- Sales revenue
- Growth in sales revenue
- Cost reduction
- ROCE
- Share price
- Return on shareholder funds

The Customer Perspective

Recent management philosophy has shown an increasing realization of the importance of customer focus and customer satisfaction in any business. These are leading indicators: if customers are not satisfied, they will eventually find other suppliers that will meet their needs. Poor performance from this perspective is thus a leading indicator of future decline, even though the current financial picture may look good.

In developing metrics for satisfaction, customers should be analyzed in terms of kinds of customers and the kinds of processes for which we are providing a product or service to those customer groups.

How do customers perceive the firm?

This focuses on the analysis of different types of customers, their degree of satisfaction and the processes used to deliver products and services to customers.

Particular areas of focus would include:

- Customer service
- New products
- New markets
- Customer retention
- Customer satisfaction
- What does the organisation need to do to remain that customer’s valued supplier?

Potential goals for the customer perspective could include:

- Customer satisfaction
- New customer acquisition
- Customer retention
- Customer loyalty
- Fast response
- Responsiveness
- Efficiency
- Reliability
- Image

The following metrics could be used to measure success in relation to the customer perspective:

- Customer satisfaction index
- Repeat purchases
- Market share
- On time deliveries
- Number of complaints
- Average time to process orders
- Returned orders
- Response time
- Reliability
- New customer acquisitions
- Perceived value for money

The Learning & Growth Perspective

This perspective includes employee training and corporate cultural attitudes related to both individual and corporate self-improvement. In a knowledge-worker organization, people -- the only repository of knowledge -- are the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode. Metrics can be put into place to guide managers in focusing training funds where they can help the most. In any case, learning and growth constitute the essential foundation for success of any knowledge-worker organization.

Kaplan and Norton emphasize that 'learning' is more than 'training'; it also includes things like mentors and tutors within the organization, as well as that ease of communication among workers that allows them to readily get help on a problem when it is needed. It also includes technological tools; what the Baldrige criteria call "high performance work systems."

Innovation and learning perspective

This perspective is concerned with issues such as:

- Can we continue to improve and create value?
- In which areas must the organisation improve?
- How can the company continue to improve and create value in the future?

- What should it be doing to make this happen?

Potential goals for the **innovation and learning** *perspective include:*

- New product development
- Continuous improvement
- Technological leadership
- HR development
- Product diversification

The following metrics could be used to measure success in relation to the **innovation and learning** *perspective:*

- Number of new products
- % sales from new products
- Amount of training
- Number of strategic skills learned.
- Value of new product in sales
- R&D as % of sales
- Number of employee suggestions.
- Extent of employee empowerment

The Business Process Perspective

This perspective refers to internal business processes. Metrics based on this perspective allow the managers to know how well their business is running, and whether its products and services conform to customer requirements (the mission). These metrics have to be carefully designed by those who know these processes most intimately; with our unique missions these are not something that can be developed by outside consultants.

Internal perspective

This seeks to identify:

- How well the business is performing.
- Whether the products and services offered meet customer expectations.
- The critical processes for satisfying both customers and shareholders.
- Activities in which the firm excels?

- And in what must it excel in the future?
- The internal processes that the company must be improved if it is to achieve its objectives.

This perspective is concerned with assessing the quality of people and processes.

Potential goals for the internal perspective include:

- Improve core competencies
- Improvements in technology
- Streamline processes
- Manufacturing excellence
- Quality performance
- Inventory management
- Quality
- Motivated workforce

The following metrics could be used to measure success in relation to the internal perspective:

- Efficiency improvements
- Reduction in unit costs
- Reduced waste
- Improvements in morale
- Increase in capacity utilisation
- Increased productivity
- % defective output
- Amount of recycled waste
- Amount of reworking

POSSIBLE QUESTIONS

PART-A

Multiple Choice questions

Online Examination

Part - B

1. What is Evaluation and control?

2. What do you mean by strategy implementation?

3. What is organization structure?

3. Define strategic Alliance?

4. What is balanced score card?

5.What is Business Process Perspective of balanced scorecard?

6. What is Internal perspective?

7. What is Innovation and learning perspective?

8. What is Learning & Growth Perspective?

9. Define Reengineering?

10. What is re-Structuring?

11. What is organization structure?

12. Give a note on 7 S Model.

13. List the 7s of 7S framework.

14.Mention the steps in strategic planning process.

15.Write the features of DuPont model.

PART C

1.Explain the various approach to strategy implementation.

2. Explain the strategic evaluation and control.

2. Discuss Du Pont's control model.

3. Explain Michael Porters Five force model for strategy implementation.

4. Examine in brief the organization structure to have effective strategy control.

5. Globalization increases the economy of the country favorably. Discuss.

6. Explain the 7S model in strategy implementation.

7. Discuss the steps in strategy control process.

8. Examine the significance of quantitative and qualitative tools of strategy control.

9. Discuss the need and important factors that required for effective strategy implementation.

10. Discuss the future of Strategic management.

PART –D

FUNCTIONAL IMPLEMENTATION AT MRF LIMITED

The Chennai-based MRF Ltd. Is a leading tyre company, established in 1946, belonging to the mappillais group. Its product range includes tyres pre-treads and conveyor belts. Its sales are Rs. 4411 crore and profit is Rs. 172 crore in the financial year ending September 2007. It has seven manufacturing units.

Major competitors of MRF are Appolo Tyres, ceat, goodyear and J.K. Tyres. Duty reduction on imported Tyres to 10 per cent has enabled chinese manufacturers to capture 10 per cent of the replacement market with cheap and low-quality Tyres. The Indian tyre industry having 40 companies, has two strategic group: the top 5 Tier-I compnies that account for 80 per cent of sales and the Tier-II companies that constitutes small companies. There are three market segments: original equipment manufacture, replacement market and export. Overall, MRF is considered to be the market leader in the Indian tyre industry.

The strategies adopted by the company have been consistent over the year and are of stable expansion and minor diversifications into toys and specialty paints, making it a sharply-focused company. Greenfield investment of Rs.600 crore is planned in a Trichy-based facility. Takeovers abroad are strategic option. A foray into aircraft tyres for defence services and internationalization into China and South-East Aisa are also on the anvil.The main feature of the functional plans and policies at MRF Ltd. Are described below:

Financial area MRF follows a conservative financial policy. It is undercapitalized with a low equity base. It depends to the maximum extent, on internal funds and avoids substantial stake by financial institutions. The cost management and payout of company is stringent. Since it operates in a competitive market, losses on sales margins are made up by assets-usage efficiency and financial leverage. Financial systems are largely institutionalized. High inventories act as a buffer against fluctuations in raw material, especially natural rubber prices.

Marketing area MRF excels in the marketing area thanks to its founder, the late Mammen Mapillai who had a knack for marketing and adopted an aggressive and proactive policy. MRF believes in listening to the customer, understanding consumer behavior for product designing, entering new markets and building a price-insensitive brand. Improvement in product quaility are brought about through in-house as well as foreign technology. As a result, MRF is rated highly on customer satisfaction and branding. It also was awarded the most ethical company award in 1999. The company follows a product policy where it believes that each product should create its own profit.. there has been a shift in the product mix with greater emphasis on tyres for car and the two-wheeler segment. Export is a thrust area. MRF export to 75 countries. Regarding prices , it follows a policy of holding prices and discouraging discounts. The company adopts a systematic approach to advertising and promotion. There is a greater emphasis on TV advertising. Besides, the media mix has print, outdoor, internet and below-the-line activities like mailers and POP. Promotion is based on personal contact with truck operators and effective after-sales service along with customer counseling. The corporate mascot is a muscleman that is designed to project strength, reliability and durability. The distribution policy to focus on dealers as an important market linkage. Sales are impressive in the commercial vehicle, car radial and two-wheeler segments. There is a vast dealer network of 2500 outlets and some exclusive distribution outlets have also been opened.

Operations area The operations policy of MRF is to expand its tyre manufacturing capacity and avoid backward integration, high rubber prices have eaten into margins. There is efficient shop floor management, advance planning for supply of raw materials, economies of scale benefits through large –volume production and high emphasis on quality control. High standards are maintained in process control and product testing. Total productivity Management has been adopted. Radial tyre technology has been sourced from its erstwhile technical alliance with Michelin of France. The R&D policy is aimed at modifying and adapting tyre technology to conform to the requirements of Indian road conditions. R&D labs at units and a lab for natural rubber at kottayam are coordinated centrally.

Personnel area The personnel policy is development oriented. Managers down the line are provided systematic exposure to technology, There are product managers for each category of tyres. Empowerment to departmental heads is encouraged. The effort of the company has been to change its perception of being o low—profile organisation to that having a new image and corporate identity. The style of management is professional and policy matters are decided by the top management while day-to-day affairs are left to professional mangers. Cross-functional teams from different units contribute to suggestions, leading to cost efficiency and productivity improvements. MRF is a multi-plant company and disruption of production is avoided if work stop-page occurs at some of its plants. The management declared a lockout for two moths following a strike on the issue of cash awards demanded by workers that the company refused to pay on account of what it claimed to be low productivity. The lockout was lifted after political intervention and threat of government takeover.

Information management area Contrary to the general trend, IT is not a hyped area at MRF-IT needs are determined on the basis of cascading customers requirements into what kind of inventories and delivery and IT systems are required to support and cater to marketing demand. The company has an Oracle ERP suite deployed across all departments. It is being extended to cost measures and controls as well as maintenance functions. It has also adopted an information security network and has security policies in place to prevent unauthorized access and use.

Questions:

1. How MRF does strategies for internet economy?

2. Notify the Technology and Innovation of MRF and how does it manage.

3. Can you define the business model of MRF?